



STATE OF THE TOURISM INDUSTRY

2014



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The State of the Industry Reports are an annual series produced by Jude Wilson and David Simmons (Lincoln University) with technical input from Crile Doscher (Lincoln University) and data input and support from Bernie Hanratty (Statistics New Zealand), Steve Riley and Simon Wallace (Tourism Industry Association New Zealand) and the Tourism New Zealand Insight team.

Series title: State of the tourism industry (previously, State of the tourism sector)
Series URL: <http://hdl.handle.net/10182/4126>

ISBN: 978-0-86476-390-7 (print)
ISBN: 978-0-86476-391-4 (e)

ISSN: 2253-2021 (print)
ISSN: 2253-203X (e)

An annual publication

This publication is: State of the tourism industry no. 4 (2014)

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State of the Tourism Industry 2014

This report examines the last 10 years of tourism in New Zealand and gives a snapshot of the current state and performance of the tourism industry. It is the fourth publication in an annual series produced by Lincoln University and the Tourism Industry Association New Zealand (TIA). The first two publications in the series were titled 'State of the Sector'. In 2013 the report name was changed to State of the Industry and it was released with the launch of Tourism 2025 in March 2014.

The State of the Industry 2014 presents a selection of data drawn principally from Statistics New Zealand (SNZ) with additional data supplied by the Ministry of Business, Innovation and Employment (MBIE), the Reserve Bank of New Zealand (RBNZ), Cruise New Zealand (CNZ), Tourism New Zealand (TNZ) and the Fresh Information Company.

Executive summary

The tourism industry launched Tourism 2025 (www.tourism2025.org.nz) in March 2014 on the back of international demand showing signs of recovery in both volume and expenditure.

Since then, the industry has seen solid and continued growth.

Arrivals from our number one market, Australia, climbed 4.3% to 1.221 million visitors, while fast-growing arrivals numbers consolidated China's position as our second largest visitor market. There was a strong recovery in the number of visitors from the USA, fuelled by economic recovery and The Hobbit movies. And while visitors from Japan fell slightly, Germany overtook Japan as our fifth largest visitor market.

Tourism 2025 focuses on growing volume but growing value faster, and so it has been pleasing to see growth in total visitor expenditure in the 12 months to March 2014. Domestic visitor expenditure grew by 3.2% to \$13.4 billion over this period against the Tourism 2025 aspirational goal of 4%. Provisional results showed that international visitor expenditure increased by 7.4%, against our 6% aspiration goal to reach \$10.3 billion. Growth came largely from the US, Chinese and German visitor markets.

The outlook for the cruise sector is bright, with record growth forecast for the 2015-16 cruise season. In terms of total arrivals, it is already the equivalent of New Zealand's fourth largest visitor market but its growth may present significant challenges. The trend to larger ships may cap the capacity for regional distribution. This highlights the critical importance of destination planning to ensure the right infrastructure strategies are in place to prepare for growth.

Domestic tourism, too, remains a significant contributor to the New Zealand economy, contributing around 57% of total tourism expenditure. It provides a foundation for many tourism regions, by offsetting the sharper peaks of international visitation.

There has been a slight increase in tourism employment in the last year after four years of either flat or falling job numbers. Tourism employment is arguably the most important social benefit from tourism sector activities.

Understanding and responding to the changes in the market provides an ongoing challenge to New Zealand regions and individual businesses. The Tourism 2025 framework provides a tool to work within to, amongst other things, improve the visitor experience and create regional dispersal.

The Tourism 2025 growth framework shows how the industry can grow value through greater alignment in responding to a fast-changing global environment. Combined with solid growth in the last 12 months, Tourism 2025 gives New Zealand tourism a strong base from which to leverage opportunities that will be presented in the year ahead.

Methodology

Revisions to the Tourism Satellite Account Year Ending March 2014

The State of the Industry report relies heavily on data from the Tourism Satellite Account (TSA) reporting period to the year ending March 2014. In 2014 revisions were made to the TSA to reflect changes to the International Visitor Survey (IVS) expenditure series. These changes affected the value of international tourism expenditure in the New Zealand economy and the TSA time series back to 1999.

International student expenditure (students studying in New Zealand for less than 12 months) has also been revised. This is consistent with the definition of a tourist back to 2004, reflecting the implementation of new living costs multipliers.

The revisions to international tourism expenditure have also affected household tourism expenditure. With more expenditure in the economy attributed to overseas visitors, less expenditure has been attributed to Household Consumption Expenditure (HCE) by New Zealanders as Gross Domestic Product (GDP) remains unchanged. A decrease in HCE has, in turn, contributed to a decrease in tourism expenditure levels by households.

Business and government tourism expenditure has also been revised because of updated input-output tables. Tourism industry ratios have changed because of these revisions. These ratios are the proportion of an industry's output that is consumed by travellers and are used to calculate tourism employment and direct tourism value added estimates. As a result of the ratio changes, we have revised the employment

time series back to 2001. Similarly, we have revised the value added time series back to 1999.

The data presented is the most up to date for the reporting period for the year ended March 2014. Further IVS revisions released in February 2015 are not included in the data presented in this report.

This report presents data in four sections:

- Tourism in context: the reach of tourism; external and internal risks
- International demand: arrivals; air connectivity; key markets; visit characteristics (purpose and length of stay); niche markets; seasonality; spend
- Regional dispersal and domestic tourism
- Tourism outcomes: export earnings; domestic tourism expenditure; contribution to GDP; employment

Tourism in context

The reach of tourism

The tourism industry is made up of a wide range of businesses from large stock exchange-listed companies through to small businesses such as bed and breakfast operators. More than 85% of tourism businesses are small-to-medium enterprises (SMEs) and many have fewer than five staff.

Tourism plays a significant role in the New Zealand economy in terms of production of goods and services. It creates employment. It generates travel spending by international visitors, resident New Zealanders, and business and government travellers.

Official international tourism expenditure also includes spending by foreign students who study in New Zealand for less than 12 months. Aside from specialised travel and accommodation providers, a number of other sectors gain benefit from tourism expenditure. The sector is reported as comprising 40% of all spending in the food and beverage sub-sector, 24% of fuel sales, 10% of education and 7% of general retail sales.

The sector also provides value to industries within New Zealand that add tourism experiences to their product offering, such as farm stays, factory tours and wineries. Tourism helps drive regional economic growth and supports the revitalisation of towns and communities. This in turn creates employment opportunities and helps build regional pride.

Tourism provides Maori with important opportunities to nurture, to celebrate and to present New Zealand's indigenous culture to the world. Maori culture, in turn, adds a unique dimension to tourism in New Zealand.

All New Zealanders have a role to play in tourism across our communities. The tourism industry generates \$65 million per day across New Zealand, \$37 million in domestic expenditure and \$28 million per day in international expenditure.

Whether it is the local bank branch exchanging foreign currency, the service station pumping petrol, the retail shopping outlets selling their products or the core sector accommodation and transport providers, locals are all hosts who have a role to play in welcoming our visitors.

The benefits of tourism are immense, spanning social and cultural elements, as well as the economic benefits that sustain jobs in communities around the country, jobs that may not exist without a vibrant visitor industry.

External and internal risks

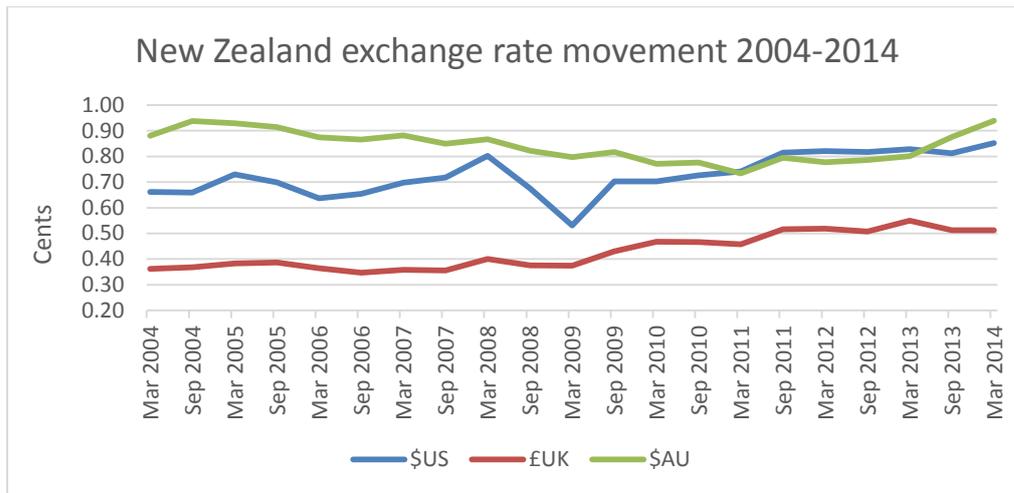
A review of key events impacting New Zealand tourism over the last ten years highlights a range of external and internal risks or vulnerabilities. These include, but are not limited to:

- Geological, e.g. earthquake (Christchurch 2010-11), tsunami (Japan 2011), volcanic ash (Chile 2008, Iceland 2010)
- Atmospheric, e.g. flooding (Nelson 2013, Brisbane 2011)
- Biological, e.g. human (Ebola 2014)
- Political, e.g. terrorism and political unrest (Syria since 2011, Ukraine 2014)
- Economic, e.g. Global Financial Crisis (2008)

International exchange rates

The 2008 Global Financial Crisis precipitated some significant shifts in exchange rates over the last six years. As Figure 1 shows, the NZ\$ has risen against the UK£ and the US\$ (with the Japanese Yen and Chinese Yuan following a similar pattern to the US\$). These exchange rate movements cause a general (but lagged) effect on visitor demand from these countries. The reverse was true for the AU\$, which appreciated in value against the NZ\$ (until March 2013) during which time we saw consistent visitor growth.

Figure 1 New Zealand exchange rate movement 2004-2014



Source: Reserve Bank of New Zealand

Outbound travel

The effect of these changes in exchange rates is most clearly seen in the growth of outbound travel by New Zealanders (contributing factors are population growth and ageing, and increasing wealth). Between 2004 and 2014 the number of New Zealanders departing short term (less than 12 months) grew by 765,051 (a 53% increase) (Figure 2). Over the same period the NZ\$ increased by 29% against the US\$ and 42% against the UK£ (Figure 1). The NZ\$ also increased by 14% against the Euro between March 2004 and March 2014.

Figure 2 New Zealand domestic departures and international visitor arrivals (Year ended March 2004-2014)

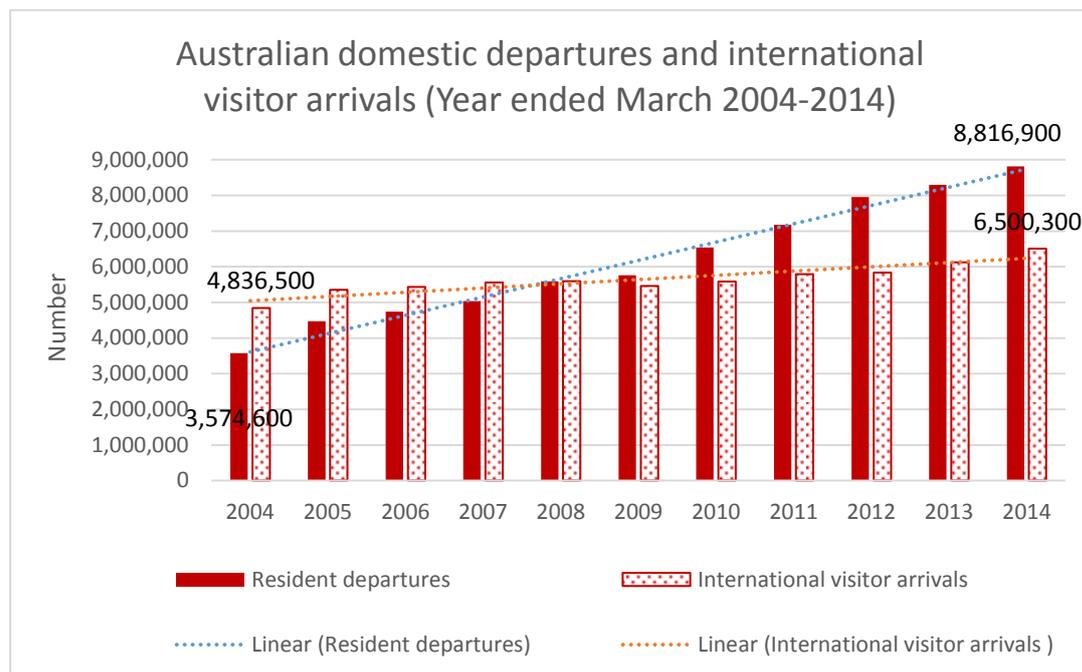


Source: Statistics New Zealand

Figure 2 shows that international arrivals exceed domestic departures by around 500,000 each year. The linear trend lines in Figure 2 also show that domestic departures have grown at a slightly faster rate than international arrivals over the last ten years (i.e. a steeper trend line).

In Australia, domestic departures have increased significantly and have outnumbered international arrivals since 2009 (Figure 3). The strength of the Australian dollar and budget airlines, primarily to Asia, have driven this increase in Australian domestic departures.

Figure 3 Australian domestic departures and international visitor arrivals (Year ended March 2004-2014)



Source: Australian Bureau of Statistics

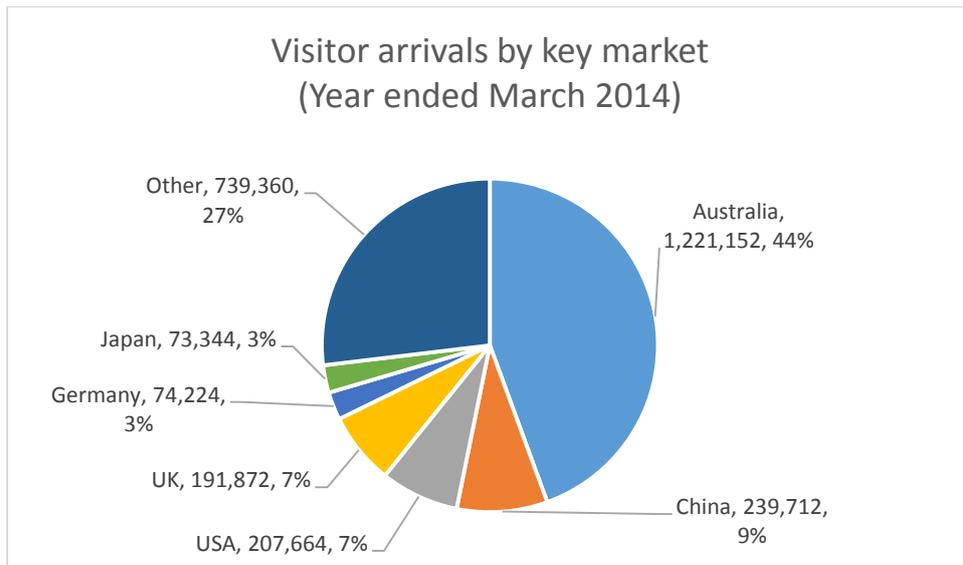
International demand

International arrivals

The last ten years have seen international arrivals grow from 2,163,427 in 2004 to 2,752,257 in 2014 (a 27% increase) (see Figure 2).

The top six markets (combined) represented 73% of all international arrivals in 2014 (Figure 4). In 2014, the top six markets (in order of size) were Australia, China, USA, UK, Germany and Japan. In 2004, these six markets represented 63% of all international arrivals (Figure 5).

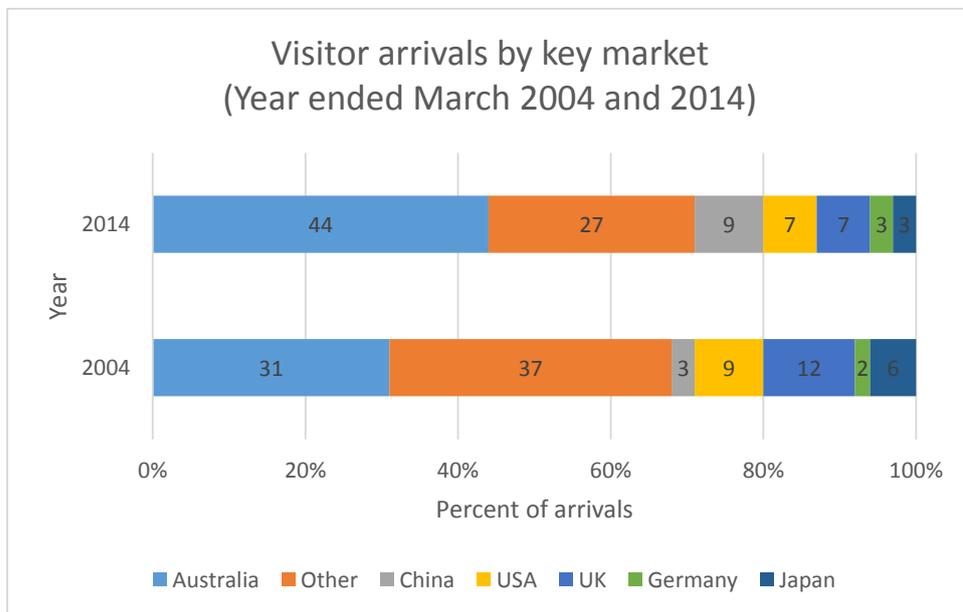
Figure 4 Visitor arrivals by key market (Year ended March 2014)



Source: Statistics New Zealand

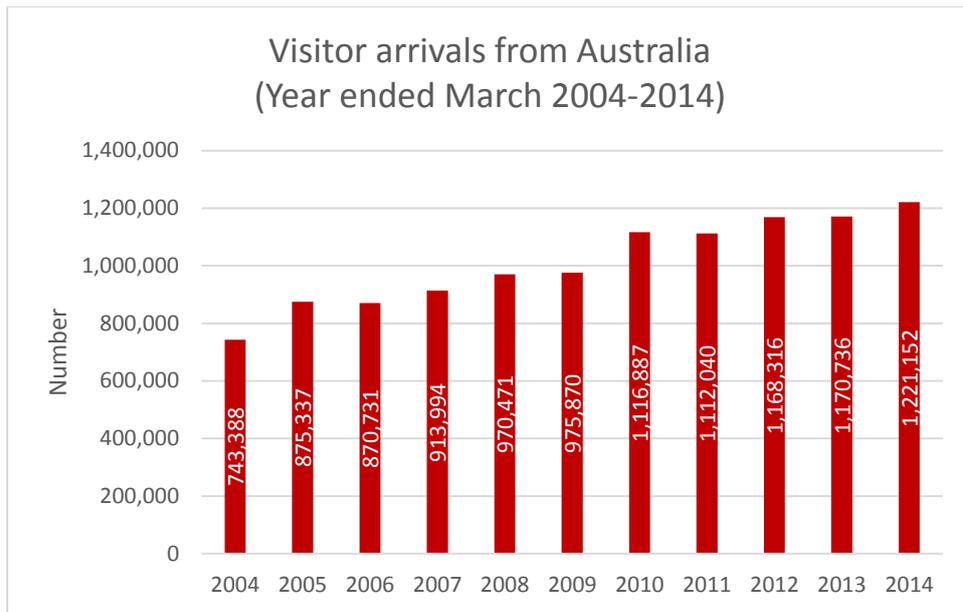
For the six key markets in 2014, growth has not been consistent over the last ten years, as shown by Figures 5 and 6. In the year ended March 2014, Australia accounted for 44% of international arrivals compared to 31% in 2004 (Figure 5). Australian arrivals exceeded one million for the first time in 2010 and have grown 64% since 2004 (Figure 6).

Figure 5 Visitor arrivals by key market (Year ended March 2004 and 2014)



Source: Statistics New Zealand

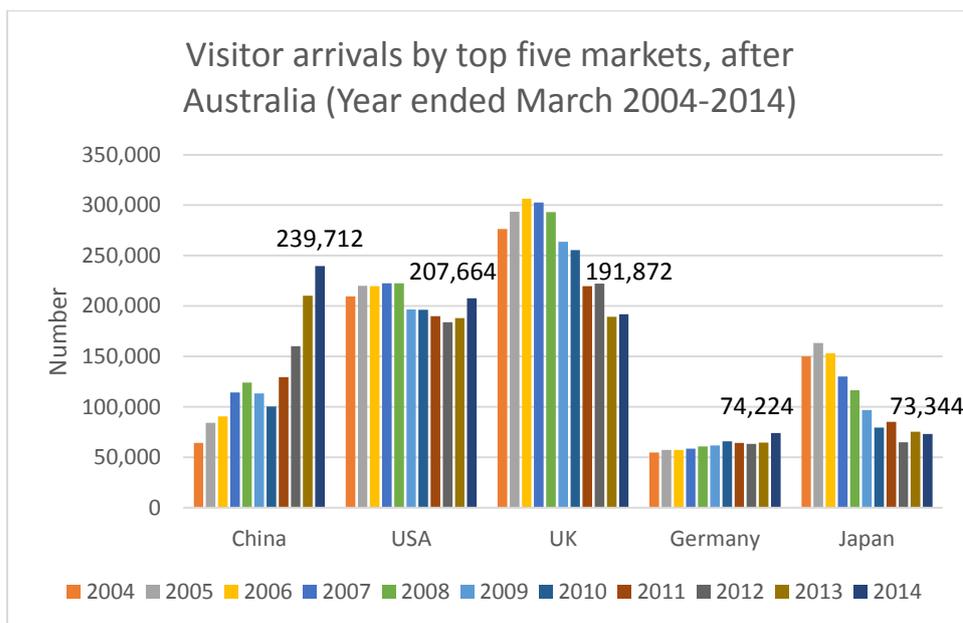
Figure 6 Visitor arrivals from Australia (Year ended March 2004-2014)



Source: Statistics New Zealand

Figure 7 shows the arrival data for the remaining top five top markets (after Australia) in 2014. These data show that China overtook the UK as our second largest visitor market for the year ended March 2013 and has consolidated this position over the last year, albeit with a small contraction in volume due to the introduction of the China travel law in October 2013. In 2004 visitors from China represented only 3% of all international arrivals (Figure 5). Meanwhile, Japanese visitor numbers fell during this period. In the year ended March 2014, Germany overtook Japan as the fifth largest visitor market and there was a strong recovery in the number of visitors from the USA.

Figure 7 Visitor arrivals by top five markets, after Australia (Year ended March 2004-2014)



Source: Statistics New Zealand

Growth of other markets

In the 12 months to March 2014, there was a 5.8% increase in visitors from Europe with the strongest growth coming in visitors from France (17.2%), Germany (14.5%), Sweden (13%) and Switzerland (12.5%). However, with the exception of Germany, this growth is from small initial base numbers (e.g. 24,816 visitors from France, 11,104 from Sweden and 15,536 from Switzerland in 2013).

The Asian market grew by 8.8% in this 12 month period with Singapore and Thailand (both 17%), Indonesia (14.3%), China (14%) and Malaysia (9.3%) the best performing countries. Once again, however, this growth is from a small initial base (with the exception of China).

As Figure 7 shows, there was an increase in visitors from the USA over the same period (10.4%). This exceeds the overall growth in visitors from the Americas (8%). Of the other visitors from the Americas, Brazil had the highest growth rate (5.4%), but again this was from a low base.

Air Connectivity

To cater for growing international visitor market demand, a number of new airline services have been announced in the past year, addressing a core theme of Tourism 2025 - growing sustainable air connectivity.

Air New Zealand's alliance with Singapore Airlines is offering increased capacity and more flights from Singapore to Auckland and Christchurch together with greater connectivity from points in South East Asia and Europe. China Southern has steadily increased its frequency and now operates double daily services from Guangzhou to Auckland while China Eastern and China Airlines have commenced seasonal services from Shanghai and Taipei, respectively.

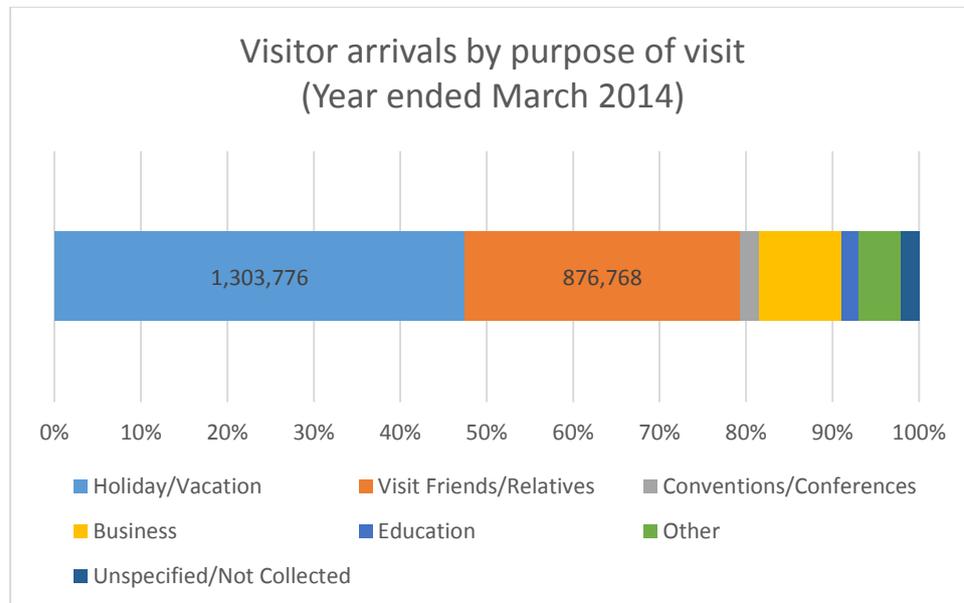
Meanwhile, Jetstar has already commenced new services from the Gold Coast into Wellington and Queenstown and Fiji Airways has started a Christchurch service and is about to commence a new service to Wellington. From the end of 2015, the valuable South America market will be opened up even more as Air New Zealand flies between Auckland and Buenos Aires.

A key Tourism 2025 indicator to drive and track progress is monitoring inbound passenger capacity (seats) growth. Capacity has increased by 6.3% from 2013 to 2014 to reach 7.8 million seats. Strong growth off a low base was recorded for South America (up 59.2% to 145,000 seats) and Australia increasing by 7.7% to 4.8 million seats. The Asia region increased 2.3% to 1.4 million seats and North America increased 2.1% to 701,000 seats (Source: SABRE-ADI).

Purpose of visit

For the year ending March 2014, 47% of international arrivals were holiday visitors (51% in 2004) and slightly under a third (32%) were Visiting Friends/Relatives (VFR) (28% in 2004) (Figure 8).

Figure 8 Visitor arrivals by purpose of visit (Year ended March 2014)



Source: Statistics New Zealand

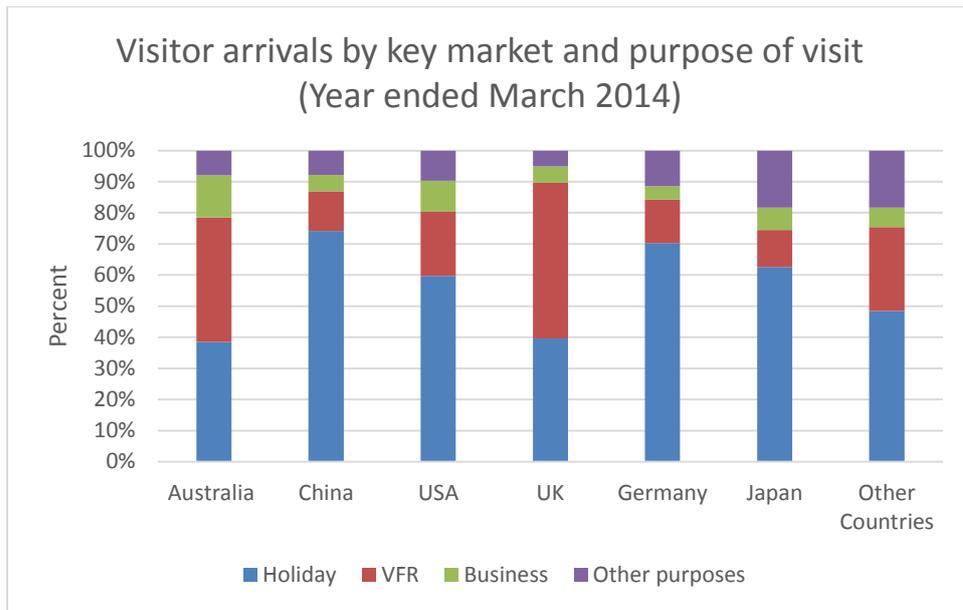
Purpose by key market

Together, holiday and VFR visitors accounted for 79% of all international arrivals in 2014. The China (74%), Germany (70%), Japan (63%) and USA (60%) markets had the highest proportion of holiday visitors, while the UK (40% in 2004, 50% in 2014) and Australian (35% in 2004, 40% in 2014) markets had the highest percentage of VFR visitors (Figure 9).

The sizeable component of Australian VFR travellers is likely to be attributable to a higher number of ex-pat New Zealanders returning home to visit friends and family. The large component of UK VFR travellers in 2014 is likely to be largely attributable to more travellers from the UK travelling to New Zealand for the main purpose of visiting friends and family, rather than for pure holiday purposes. While the recession impacted significantly on the UK holiday market, the VFR market was more robust. Also, as highlighted in Tourism 2025, with the emergence of new destinations, especially in Eastern Europe, there is a lot more competition for the UK holidaymaker.

Overall, 40% of UK visitors and 38% of Australian visitors reported holiday as their main purpose of visit in the year ended March 2014. Of the six key markets, Australia had the highest proportion of business visitors (13%) followed by USA (10%).

Figure 9 Visitor arrivals by key market and purpose of visit (Year ended March 2014)



Source: Statistics New Zealand

Creating the right visitor experience

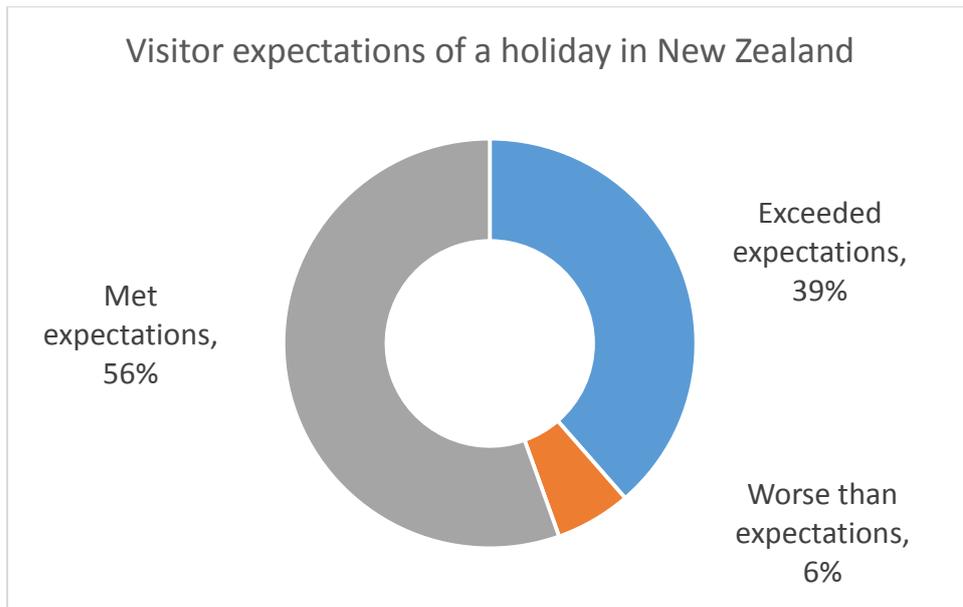
A Tourism 2025 priority is to increase value by improving visitor satisfaction and removing causes of dissatisfaction. When operators put themselves in the shoes of our visitors, by building on what they are doing well and eliminating areas of dissatisfaction, the flow on effect will be visitors who stay longer, spend more as they travel more widely around New Zealand, and who recommend New Zealand as a destination to their family and friends.

According to Tourism New Zealand’s Experience Monitor 2014, areas of dissatisfaction for international visitors centred on the price, quality and choices of food and beverage available. No free internet in accommodation was also highlighted as an area that needs addressing to make the visitor experience more desirable.

The Tourism 2025 blog highlights initiatives operators are putting in place to reduce or remove areas of dissatisfaction. These examples of how businesses are improving the visitor experience and leading the way to providing a world class visitor experience include:

- “National bus service InterCity has introduced seamless 3G and 4G mobile wifi across its entire fleet”
- “Shotover Jet is providing guests with improved footage of their once-in-a-lifetime experience after installing state-of-the-art High Definition (HD) cameras on its entire jet boat fleet”

Figure 10 Visitor expectations of a holiday in New Zealand



Source: Experience Monitor 2014, Tourism New Zealand

The latest Experience Monitor results are encouraging, showing that for 39% of international visitors, New Zealand as a destination exceeded expectations (Figure 10). There is still, however, a lot of work to do to meet Tourism 2025's objective to drive value through creating an outstanding visitor experience. While most visitor expectations were met or exceeded, just over one in twenty considered their experience to be worse than they expected.

Planning for future capacity and market segmentation is critical to delivering our visitor experience. The China visitor market is forecast to grow to around 509,000 in 2020. This increase is around double the arrivals currently generated from China and will be equivalent to servicing the needs of a major new visitor market. New visitor experience data shows that the biggest promoters of New Zealand as a destination come from our traditional markets of the UK and USA, while our lowest promoters tend to be from Asian countries. It is therefore important that the end to end processes, such as the experiences our visitors have with the booking systems, the ease of obtaining a visa when applicable, the border experience and the 'on the ground' experience are geared to our emerging markets as well as continuing the positive profile we have with our traditional visitor markets.

The visitor decision-making process (Angus & Associates) outlined in Tourism 2025 shows that consumers go through several stages in deciding which destination to visit. Their experience during each stage contributes to their overall visitor experience for that destination. The experience begins when a traveller becomes aware of a destination and continues through to sharing their experiences with friends and family after they return home. The importance of the 'advocacy for New Zealand as a preferred destination' stage is critical to generating both new and repeat visitations. This is supported by the latest Experience Monitor data that

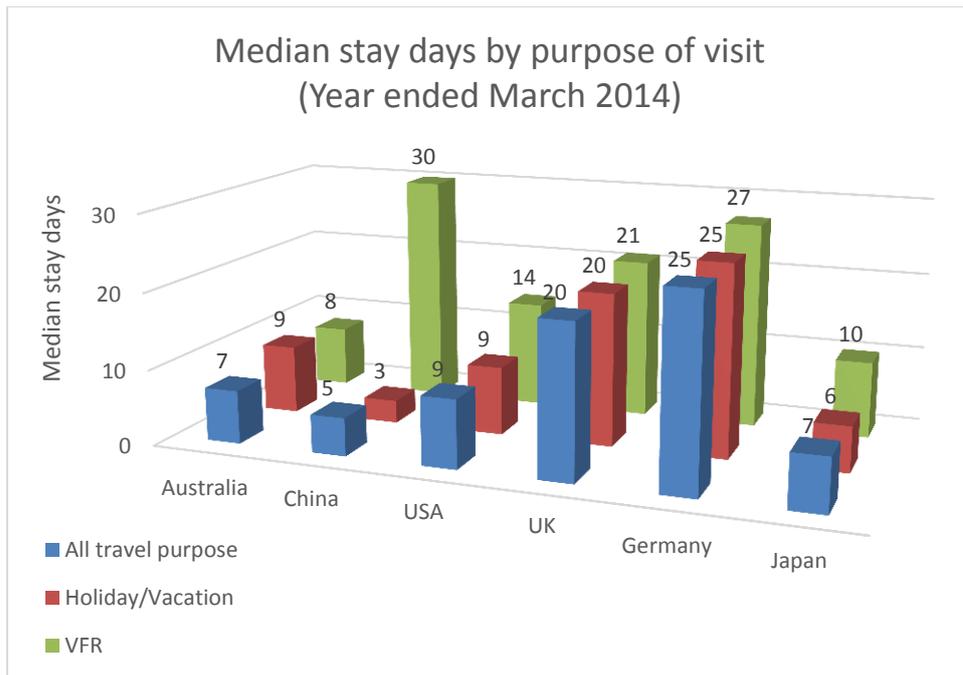
shows word of mouth is a key factor in generating interest with 27% of people being recommended to come to New Zealand.

Length of stay for key markets

In 2014 the median stay days of visitors from each key market varied considerably. As Figure 11 shows, visitors from Germany, the UK and the USA had the longest median stay days (25 days, 20 days and 9 days, respectively). Visitors from China had the shortest median stay days (5 days), an increase from 4 days in 2013. VFR Chinese visitors had the highest median stay days overall, although this data describes only 13% of Chinese visitor arrivals (Figure 7). VFR visitors from the UK had a median stay of 21 days (compared with 20 days for holiday visitors). In comparison Australian holiday visitors had a longer median stay than Australian VFR visitors.

For Australian visitors, the median stay days have fallen since 2004 (from 11 to 9 days for holiday visitors, from 10 to 8 days for VFR visitors, and from 9 to 7 days for 'all travel purposes') and this has had a flow-on effect on total tourism activity. This supports the hypothesis that Australians now consider New Zealand a domestic destination, which they may visit multiple times rather than treating it as a once-in-a-lifetime destination to visit. In the key markets with the highest proportion of business visitors, the median stay days of Australians have fallen over the last ten years (from 4 days to 3 days). In 2014, the median stay of USA business visitors was 6 days (the same as in 2004) although this had fallen to 5 days in six of the seven previous years.

Figure 11 Median stay days by purpose of visit (Year ended March 2014)



Source: Statistics New Zealand

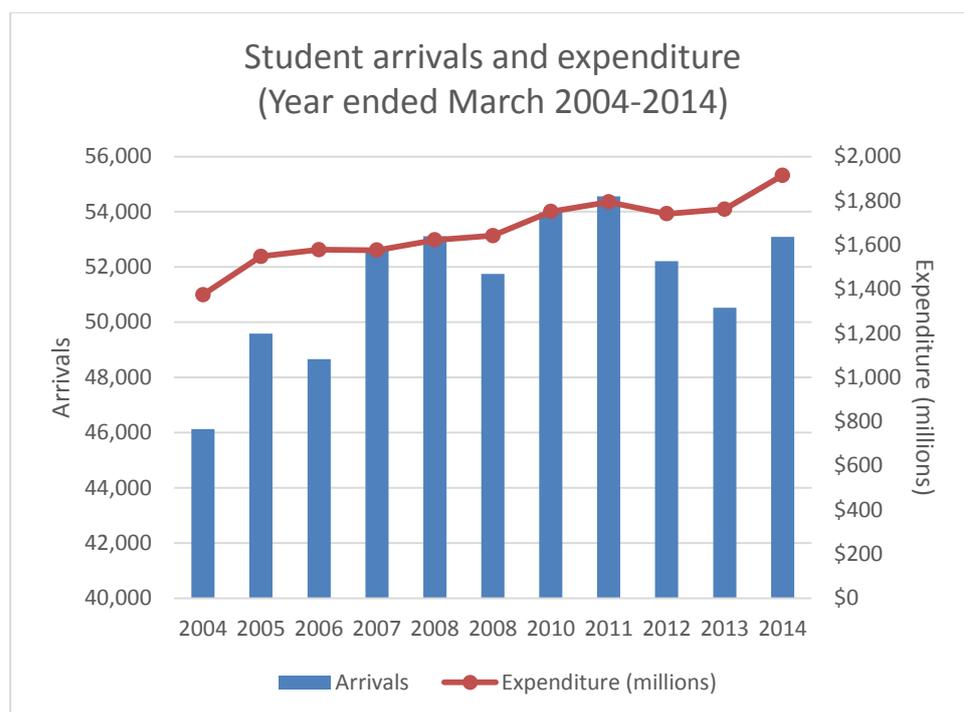
International demand – niche markets

Among the larger visitor flows reported above, four niche markets can be highlighted because of their special characteristics.

Education

Education market data requires care in interpretation as formal tourism definitions do not record students who stay for more than one year. Education visitors arriving for fewer than 12 months represented only 2% of all international arrivals in 2014. Education visitor arrivals have been erratic over the last 10 years while expenditure of education visitors has maintained a gradual year on year increase (Figure 12). The average spend per international student for the 2014 year was \$36,072 (an increase of 21% on the 2004 average spend of \$29,774). These data are impacted by the revisions to the calculations used in TSA reporting noted earlier. The fall in student arrivals in 2012 and 2013 shown in Figure 12 is attributable to the impact of the Christchurch earthquakes on student arrivals.

Figure 12 Student arrivals and expenditure (Year ended March 2004-2014)



Source: Statistics New Zealand

Expenditure by international students studying for fewer than 12 months comprises course fees, living costs, and airfares on resident airlines. In the year ended March 2014 expenditure was \$1.9 billion, an increase of 8.7%. Many international students also have family and friends visit during their stay, contributing to the international VFR market.

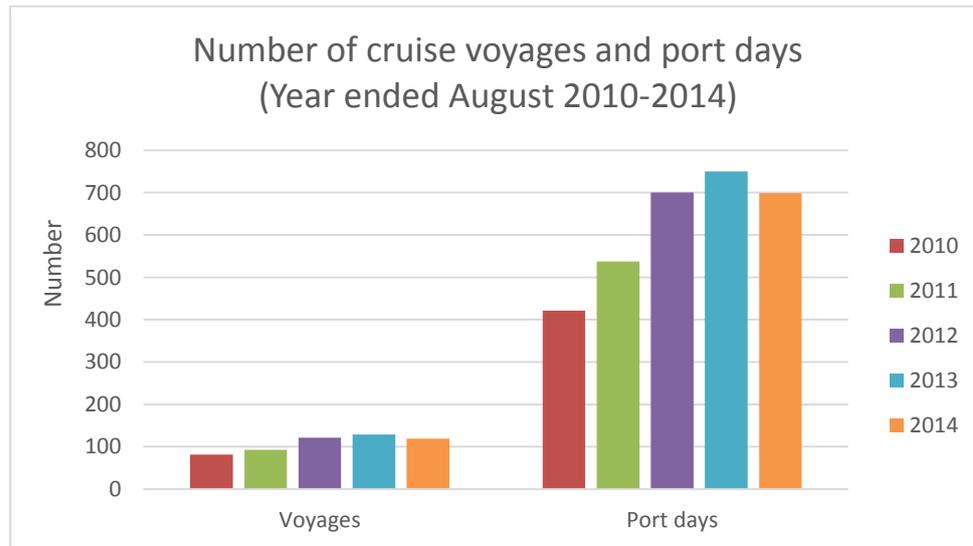
The education sector is recognised in Tourism 2025 as a key niche market for operators to target to derive value from students and their family and friends. This is aligned with the New Zealand’s target for export education as a key area for export earnings growth.

Cruise

In the 2013/2014 season, 202,722 passengers and 69,080 crew visited New Zealand on 119 separate cruises with 699 port days (Figures 13 and 14). International arrivals data for the year ended March 2014 show only 33,504 cruise ship arrivals: the majority of cruise passengers are in transit while visiting New Zealand and are not included in the official international arrival statistics. Australians made up the majority of cruise passengers (52%), followed by Americans (17%) and New Zealanders (10%). While these figures represent a slight fall on the previous season, over the past five seasons passenger numbers have grown 70.4%, the number of voyages has increased by 23.9% and the number of port days has increased by 42.3%.

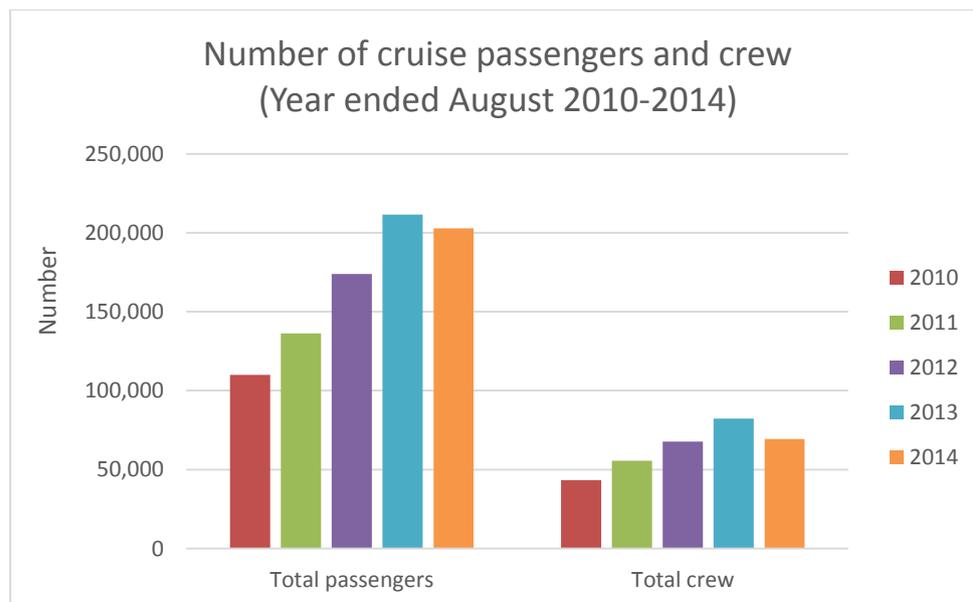
The growth of cruise is a worldwide phenomenon. Average passenger growth globally has averaged 7.5% since 1980. Strong long-term growth is forecast to continue. The cruise sector is a rapidly growing segment within New Zealand’s holiday market. In terms of total arrivals, it forms the equivalent of our fourth largest visitor market, just behind the USA and ahead of the UK. Cruise gives regions an opportunity to leverage the visitor dollar from the thousands of passengers and crew who disembark at each port visit.

Figure 13 Number of cruise voyages and port days (Year ended August 2010-2014)



Source: Cruise New Zealand

Figure 14 Number of cruise passengers and crew (Year ended August 2010-2014)



Source: Cruise New Zealand

The cruise sector contributed a record \$365.3 million to New Zealand's economy in the 2013-14 season. The Auckland region attracted the largest share of this spend (43.6%) as it is the key exchange port (where cruises start and end). Other regions in order of share of cruise sector spend were Otago (10.4%), the Bay of Plenty (10.3%), Canterbury (9.7%), Wellington (9.5%), Northland (5.7%), Hawke's Bay (5.2%), Southland (3.4%), Marlborough (1.6%), Gisborne (0.5%) and Nelson (0.1%).

Tourism 2025 highlights the increasing source of visitor value from cruise, in terms of direct passenger expenditure and as a way to address both regional dispersal and seasonality (the cruise season now extends from September to May). The reach of cruise is evident at a regional level, with a total of 14 ports now visited. There are good opportunities for tourism businesses to position themselves to take advantage of the new opportunities from cruise.

Events

Events and festivals are a significant component of domestic and international travel experiences. Major events can directly generate international visits (e.g. Lions Tour 2005, Rugby World Cup 2011) and appear as small peaks in visitation while numerous small events (e.g. wine and food festivals) add colour and context to visitor experiences, and encourage domestic travel. Events generate a wide range of immediate and longer-term benefits for New Zealand. These include tourism revenue, new business opportunities, promoting high achievement in sports and arts, strengthening local and national pride, and enhancing the development of local infrastructure and amenities.

Thirty-eight events received investment from the Major Events Development Fund between February 2010 and August 2014, with the Government's investment of \$13.97 million in these events estimated to generate \$76.5 million of net benefit for the country (Source: NZ Major Events, MBIE).

Convention

For the March 2014 year, 57,888 international visitors (2%) reported their main reason for visiting New Zealand was to attend a convention or conference. Conventions and conferences also generate domestic travel. The Convention Activity Survey shows that a total of 516,000 delegates attended 4,800 conferences for around 1 million delegate days in the year ended March 2014 (MBIE, 2014). This represents a slight decrease compared to the previous year when 538,000 delegates, 5,600 conferences and 1.2 million delegate days were reported. A high concentration of convention activity was centred on Auckland with around 26% of multi day conferences and 31% of one day conferences held in Auckland in the year ended March 2014.

With the planned construction of new convention centres, operators have an opportunity to leverage this key visitor market, which is highlighted in Tourism 2025 as a Target for Value opportunity. In a high-tech world, personal interaction is more

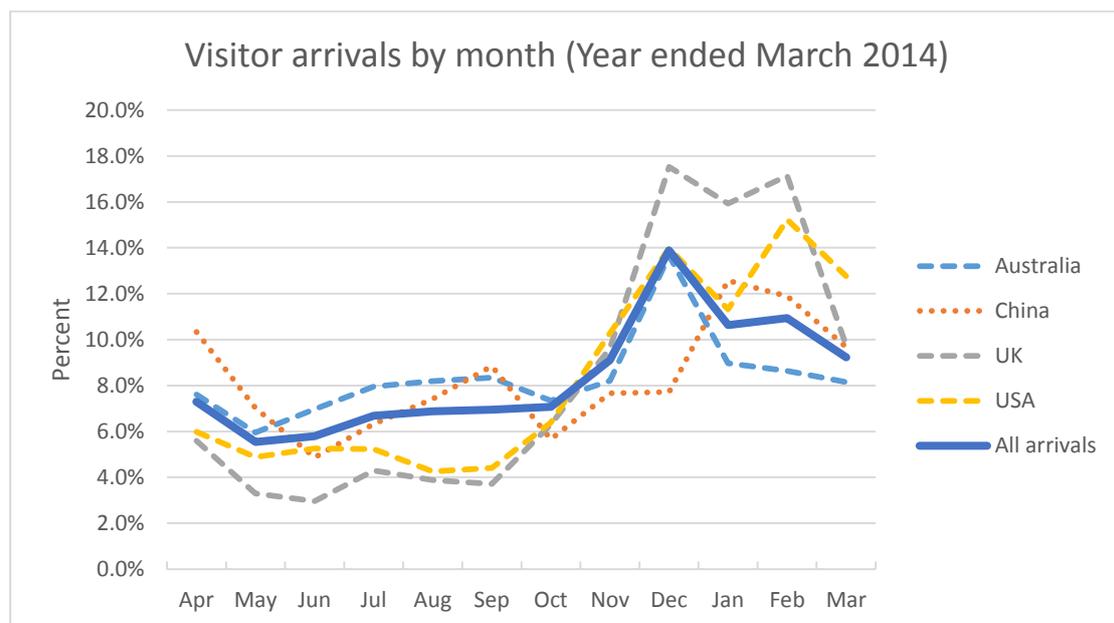
important than ever. As an example, over 23,000 Association meetings are held globally every year. That figure has been growing by 10% a year since 1963. Association meetings are just one sector group that can be targeted for business events.

International demand – seasonality

Figure 15 shows the monthly arrivals by the top four key markets for the year ended March 2014 and clearly illustrates the summer peaks in visitation along with other market specific peaks and troughs. An early summer peak (December) is most pronounced for the UK market (based around the strength of their VFR component) although there is also a peak of German visitors in December. German and UK visitors have similar seasonal visitor distribution. USA visitors follow the same pattern with the largest percentage arriving in February (15.2%) and December (14%).

Chinese visitors were concentrated in the summer months with the largest peak in January (12.6%), February (11.9%) and March (9.7%). However, in the year to March 2014, two secondary peaks of Chinese visitors occurred in the shoulder months of April (10.3%) and September (8.8%). As might be expected of the largest arrival group, Australian visitors (44% of all arrivals in the year to March 2014) closely mirrored overall seasonal arrival distribution, although they were slightly below average in the summer months and slightly above average in the winter months (related to snow sports).

Figure 15 Visitor arrivals by month (Year ended March 2014)



Source: Statistics New Zealand

As is highlighted in Tourism 2025, the industry must develop strategies to reduce seasonality to increase productivity and improve profitability. Transport and

accommodation providers, in particular, see a significant fall in demand during our low season. Attracting greater capital investment will allow businesses to build visitor demand for off-season visits, and vice versa. There are also opportunities for regions to use targeted marketing strategies to add value by encouraging domestic visitors during the low season. It is critical for operators to better understand the needs of domestic visitors to leverage the opportunity that this market provides.

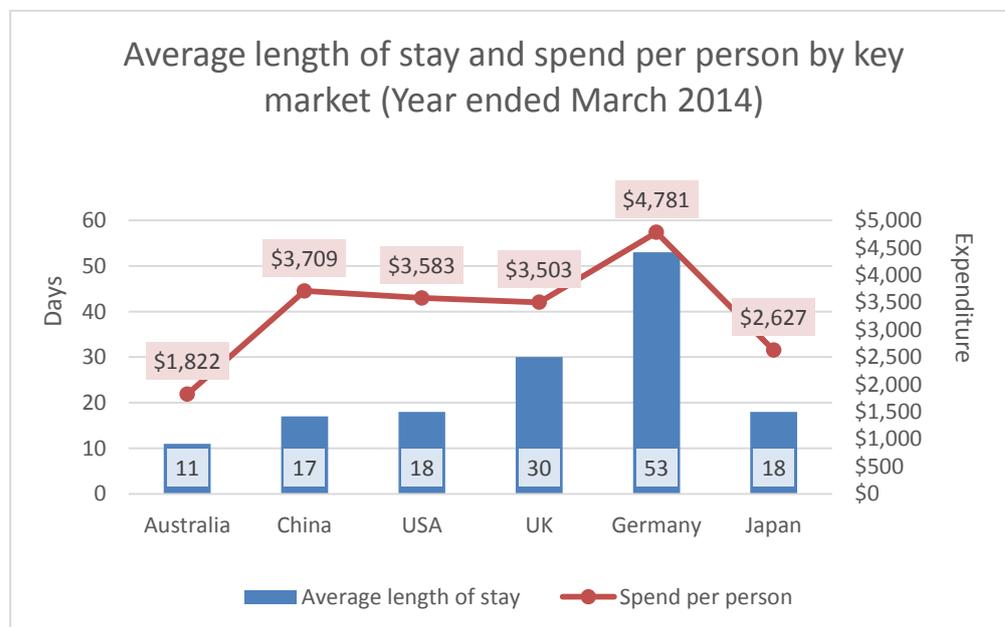
International visitor spend by key market

With the advent of Regional Tourism Estimates of expenditure, an alternative average spend per visitor by key market can be calculated than that provided by the International Visitor Survey (IVS). This calculation:

- takes the 2014 March year end expenditure values for each key market
- applies this against the 2014 March year end visitor arrivals
- and gives the resulting estimate of average spend per visitor

Figure 16 shows the average daily expenditure for the key markets. While Australia contributes around 45% of international visitors to New Zealand, the average spend is relatively low at \$1,822 per person. This is in contrast to the German visitor who spends on average \$4,781 per visit.

Figure 16 Average length of stay and spend per person by key market (Year ended March 2014)



Source: Statistics New Zealand and MBIE

Tourism 2025 states that, individually and collectively, we need to shift our focus from volume to value. By thoughtfully selecting the opportunities we pursue, the value of our visitors can increase at a faster rate than the number of visitors. As well

as targeting emerging markets, traditional markets such as Australia need more focus to grow value. This may be leveraged through creating events to stimulate the Australian market or through better regional connectivity to create more reasons for Australian visitors to increase their length of stay in New Zealand and spend in a greater diversity of regions.

Regional dispersal and domestic tourism

The tourism industry supports many regional communities and economies. The industry forms an important role in the economic and social activity of many regional communities, larger settlements and the nation itself. For the last decade tourism has vied with the dairy sector for top place as a foreign exchange earner.

The visitor economy also benefits industries within New Zealand that add tourism experiences to their product offering, such as farm stays, factory tours and wineries. Tourism helps drive regional economic growth and supports the revitalisation of towns and communities. This in turn creates employment opportunities and helps build regional pride.

As highlighted in Tourism 2025, relative to New Zealand's economic footprint, both international and domestic tourism activity is focused in regions where our natural capital lies, but large chunks of capital and labour are under-used. International tourism brings visitors from afar together with businesses in regional locations. This makes it more challenging for businesses to 'know their customer' and accordingly tailor products appropriately to individual market needs. Therefore, ensuring businesses have the right insight at the right time about their customers can lift productivity. This is particularly relevant when regional market mixes are rapidly changing. There is therefore an opportunity to improve productivity by extending both the reach of domestic and international tourism into a wider range of New Zealand communities.

Southland is putting Tourism 2025 into action with events such as the Burt Munro Challenge and the Bluff Oyster and Seafood Festival, which bring more than \$2 million into the region each year. The Bluff festival alone attracts 77% of its participants from outside the region, generating significant domestic tourism for Southland.

In searching for an appropriate indicator of regional impact we have been able to create an indicator based on Regional Gross Domestic Product (GDP) data. In Figure 17 we demonstrate regional tourism expenditure as a proportion of regional GDP (Year ended March 2014) to generate a measure of tourism's regional intensities.

Figure 17 Regional tourism expenditure as a percentage share of regional GDP (Year ended March 2014)

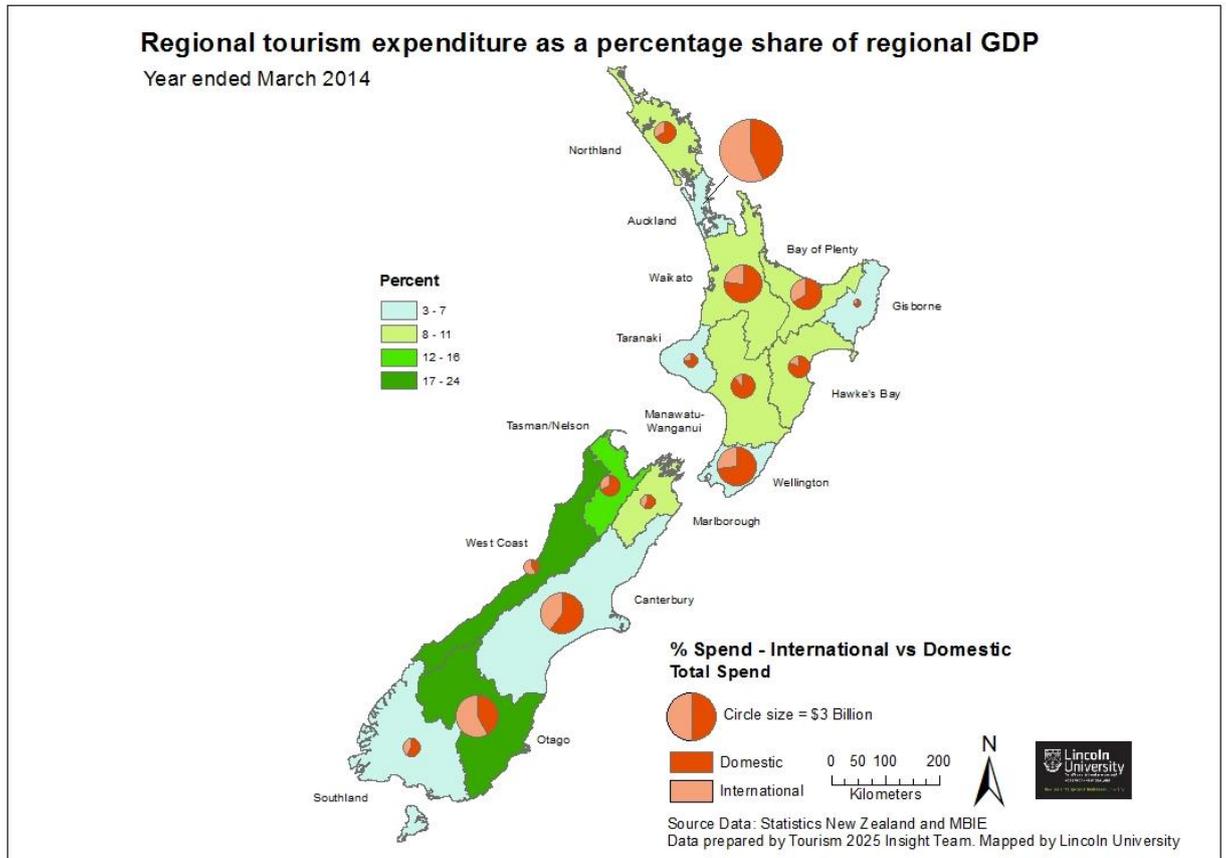


Figure 17 shows the proportion of international and domestic expenditure in each region as well as the relative expenditure size. While most expenditure occurs in the gateway cities, the impact of expenditure is more marked in more sparsely populated regions (e.g. West Coast, Otago, Tasman/Nelson, Northland and Marlborough). Domestic expenditure dominates in all regions except for West Coast, Otago and Auckland. With continued improvement in other dimensions of the New Zealand economy tourism’s contribution has eased slightly in all regions except Gisborne.

Domestic travellers account for more than half of the demand for overnight stays and make a substantial contribution to the industry’s overall financial resilience and functioning. Domestic travel patterns are less marked in their seasonality and demonstrate greater regional spread.

Domestic travel supporting commercial accommodation

The Commercial Accommodation Monitor (CAM) shows that international visitors accounted for 40% of all commercial guest nights and domestic travellers 60% of commercial guest nights in the year ended March 2014. These figures do not account for the many domestic and international VFR visitors who stay in private accommodation. In 2013/14, 31.9% of international visitors listed their primary purpose of visit as VFR.

Figure 18 shows the volume change (from the same month in the previous year) in guest nights for both international and domestic visitors from September 2010 to March 2014. These data show that for most months domestic guest nights have held up better than international guest nights and thereby made an increasingly important contribution to accommodation operators' financial sustainability. There has been a strong recovery in international guest nights with a monthly increase recorded every month since May 2013.

Figure 18 Guest nights by visitor type – Absolute change (September 2010 – March 2014)



Source: Statistics New Zealand

It should be noted that an increasing proportion of domestic and international visitors may be staying in “non-commercial” accommodation such as holiday homes, which the CAM does not account for. Further research into this is likely to provide insights into changing visitor behaviour and help the industry better understand visitor accommodation needs.

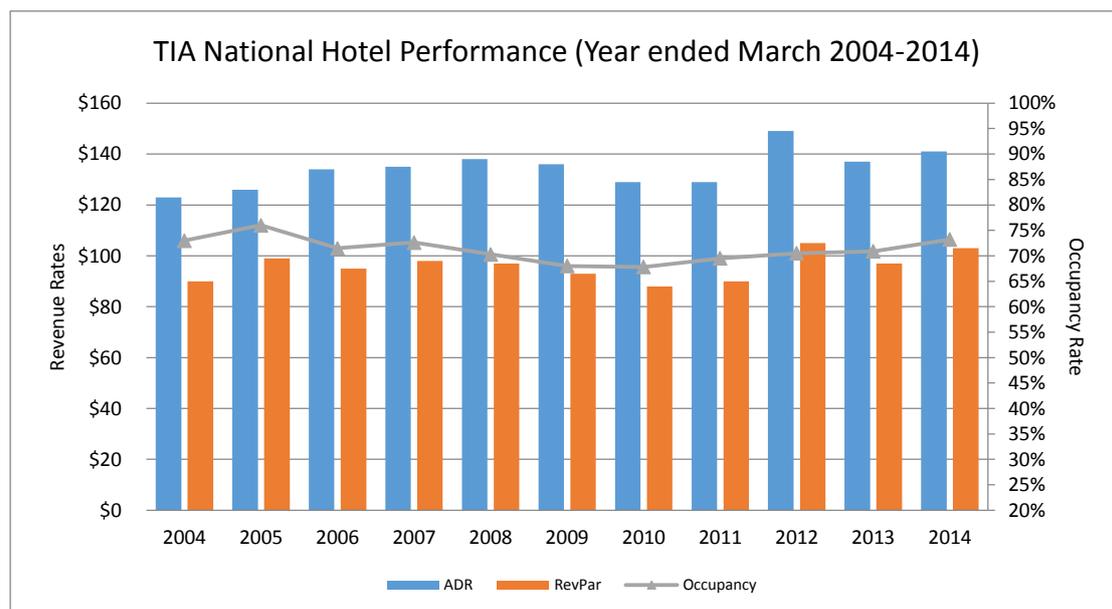
The Commercial Accommodation Monitor is one of the few indicators that measure domestic tourism. There is a gap in current data and research available in tracking the performance of domestic tourism.

Hotel Sector in 2014

Figure 19 shows the average daily (revenue) rate (ADR) for the TIA Hotel Sector at March 2014 was at a high of \$141 (the only exception to this was in the year ended March 2012, during the period when the 2011 Rugby World Cup took place). This reflects the trending increase in occupancy since 2009 - in 2014 the occupancy rate was 73% (the same as in 2004). This has been achieved through the increase of event activity in New Zealand and is a reflection of the marketing efforts that Tourism New Zealand is achieving to increase visitor arrivals and the industry's commitment to grow value. The China market is returning following the change to the shopping law in October 2013 and, post the GFC, there is a significant increase in visitors from the USA. Emerging markets are also contributing favourably to the visitor mix. From a supply side, New Zealand hotel rates remain competitive when compared to other international destinations.

Figure 19 also shows the revenue per available room (RevPar). The increases in both average revenue rates and occupancy have improved RevPar over the ten year period by \$13 (not inflation adjusted). This has added approximately \$70 million in revenue to hotel results.

Figure 19 TIA National Hotel Performance (Year ended March 2004-2014)



Source: TIA Hotel Data, The Fresh Information Company

The 2014 hotel results reflect the improvement in New Zealand's economy. Almost every region is seeing record results, with the exception of Christchurch where a significant recovery in the supply of available rooms due to hotel openings and re-openings has affected the statistics. The occupancy rate of over 73% is on a par with Australia and higher than that experienced in both the USA and China.

Tourism outcomes

Tourism's major contribution to exports

International visitor expenditure brings new money to the economy and has the equivalent effect to other export sectors. For the year ended March 2014, international tourism expenditure increased by an estimated 7.4% (\$709 million) to \$10.3 billion and contributed 15.3% to New Zealand's total exports of goods and services. Over the previous seven years tourism's foreign exchange earnings have been flat. Tourism is one of the country's two largest export sectors, but over the last four years has been second to dairy (with the gap between the two sectors increasing) (Figure 20).

Figure 20 International tourism expenditure versus dairy exports (Year ended March 2004-2014)



Source: Statistics New Zealand

Domestic tourism expenditure has outpaced international spending

Domestic tourism expenditure does not have the same export effect as international expenditure, but does retain discretionary spending within New Zealand and acts as a buffer to the lost revenue from outbound domestic travel. For the year ended March 2014, domestic tourism expenditure increased 3.2% (\$419 million) to \$13.4 billion (Figure 21). In the year ended March 2014 international spending provisionally increased by 7.4% and domestic spending by 3.2%. This is the first year since 2007 that growth in international spending has outperformed domestic spending.

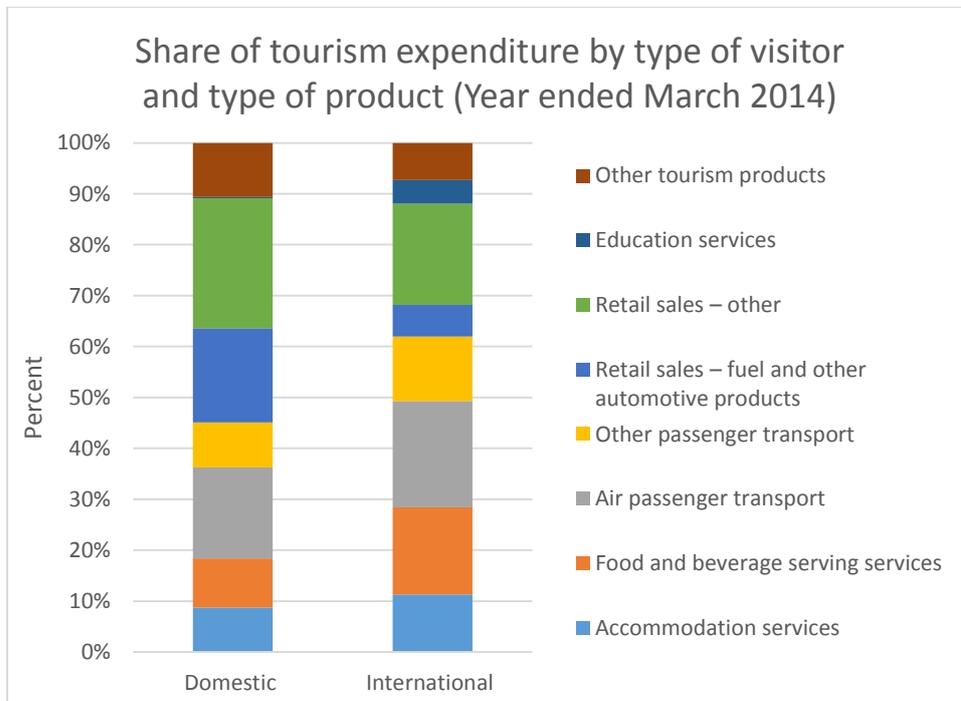
Figure 21 Tourism expenditure by type of visitor (Year ended March 2004-2014)



Source: Statistics New Zealand

Alongside the variations in total spend (Figure 21) and regional patterns of domestic versus international travel (Figure 17) already noted, there are also differences in expenditure patterns. The biggest share of domestic demand was retail (43%), while international tourism’s demand on retail was only 26% of total international spending (Figure 22). International visitors spent most of their budget on passenger transport (34%), food and beverage services (17%) and accommodation (11%).

Figure 22 Share of tourism expenditure by type of visitor and type of product (Year ended March 2014)



Source: Statistics New Zealand

Taken together, international and domestic expenditure gives rise to flow on (indirect) expenditure to other sectors.

Tourism's flow on effect within the economy has become more pronounced in absolute terms (Figure 23) but this needs to be seen in the wider context of the composition and growth of the overall New Zealand economy.

Figure 23 Tourism value added (Year ended March 2004-2014)



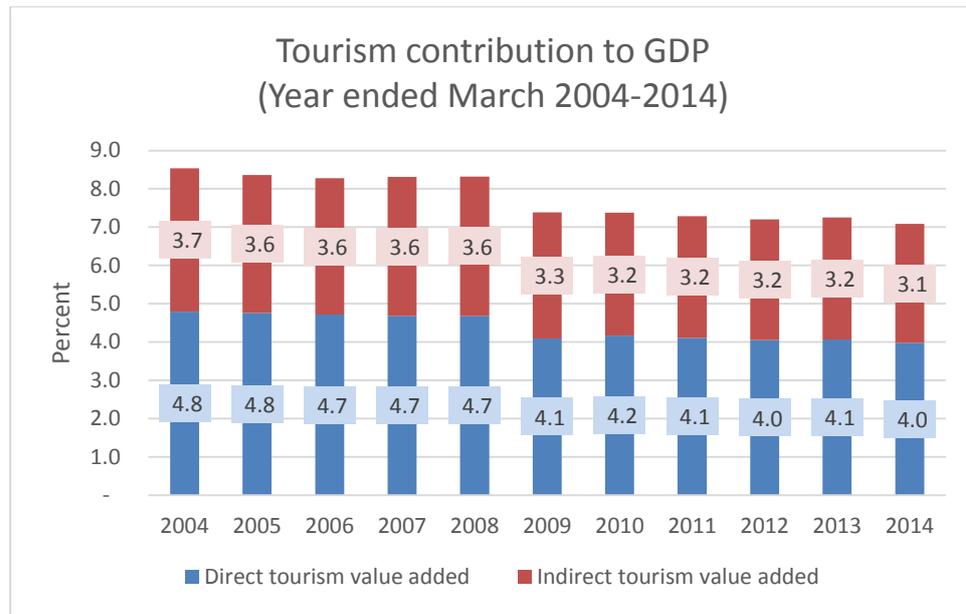
Source: Statistics New Zealand

Contribution to GDP has fallen

The most robust measure of any sector's contribution to an economy is its effect on GDP. Here the combined effects of expenditure, supply inputs and employment are recorded.

International tourism has been dropping as a proportion of foreign exchange earnings (from 22.1% in 2004 to 15.3% in 2014) and as a component of the national economy. As Figure 24 shows, the direct contribution to GDP declined from 4.8% to 4.0% for the same period, while the indirect contribution declined from 3.7% to 3.1%.

Figure 24 Tourism contribution to GDP (Year ended March 2004-2014)



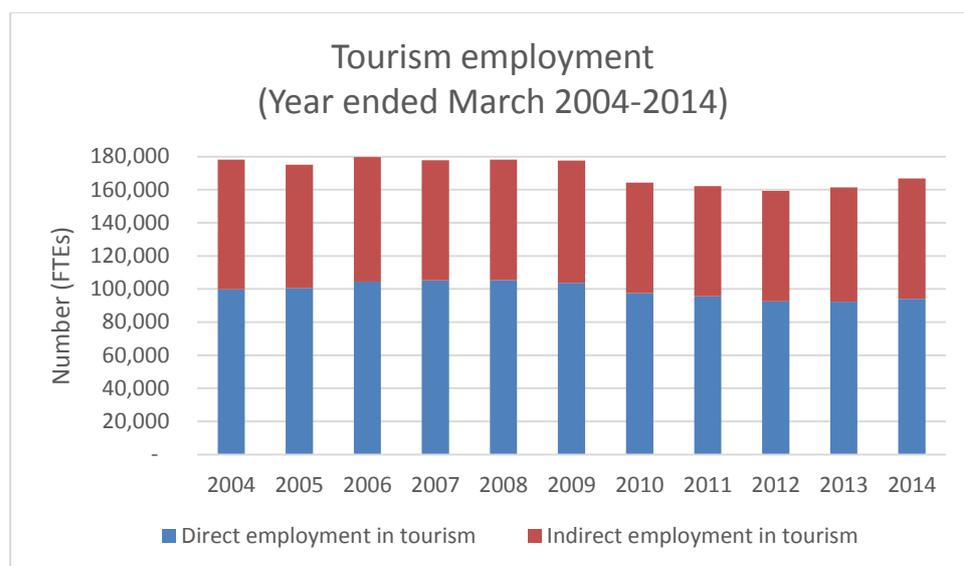
Source: Statistics New Zealand

The decline in tourism’s contribution is related to the dramatic increase in dairy export revenue over the past two decades with growing export receipts driven by higher prices and increasing animal numbers. Over the past eight years, dairy prices in NZ\$ were, on average, 65% higher than in the previous two decades and dairy cattle numbers increased by 30%. Alongside this, improved stock management and supplement use helped generate farm productivity growth and productivity beyond the farm gate increased by a third as dairy processors became more efficient, reduced wastage, and shifted towards more lucrative products (Wheeler, 2014).

Tourism employment – slight increase

Tourism employment is arguably the most important social benefit from tourism sector activities. Figure 25 shows the direct and indirect tourism employment (FTE) over the last decade, reflecting a slight increase in tourism employment in the last year after four years of either flat or falling tourism employment. Direct tourism employment increased by 1.84% and indirect tourism employment increased by 5.36% in the year ended March 2014.

Figure 25 Tourism employment (Year ended March 2004-2014)



Source: Statistics New Zealand

Tourism employment is derived using defined industries data sourced from the Quarterly Employment Survey (QES) and Household Labour Force Survey (HLFS), and the application of tourism industry ratios from the Tourism Satellite Account.

Employment data is comprised of tourism employees (QES) and tourism working proprietors (HLFS) based on a full time equivalent (FTE) basis. Statistics New Zealand defines an FTE as an employee who works 30 or more hours a week, while a part time employee is one who works fewer than 30 hours a week. Industry ratios, reflecting the proportion of an industry's output consumed by tourists, are then applied to corresponding QES and HLFS industry employment totals.

The Tourism Satellite Account estimate is not an actual number of people employed in tourism but a measurement of people employed in tourism i.e., two part time individuals could equate to one FTE or, correspondingly, one individual could work two part time positions.

Overseas/seasonal employees are within scope for inclusion by businesses in their survey responses and therefore total employment estimates and ultimately TSA calculations. A breakdown of these is not currently identifiable. Work undertaken for cash in hand is outside of scope.

In 2012/13, 48,639 people were approved under 40 Working Holiday Schemes, an increase of 13% from 43,030 in 2011/12 (MBIE, 2013). Many of these visitors are employed in tourism during their New Zealand stay and, while based in New Zealand, working holidaymakers also potentially attract additional international VFR visitors.

Given the seasonality of the industry that causes a year round fluctuation of employment levels across sectors of the industry, it is difficult to accurately represent and fully understand the social impact of tourism employment data.

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