ASB

Economic Note

Impacts of COVID-19 on the NZ Tourism sector

30 June 2020

Tough travails for tourism

- The tourism sector is perhaps the most visible casualty from COVID-19. Due to the loss of international tourism, NZ's GDP will be 3-5% lower than it would otherwise be.
- Domestic tourism within New Zealand is 40% larger than inbound tourism, and the switch towards domestic tourist experiences for New Zealanders will lessen the economic hit. Some adjustments will still have to be made to cater for the different needs of domestic tourists.
- Considerable uncertainty remains on how quickly the tourism sector can bounce back. The return to pre-COVID-19 levels of free cross-border movement looks to be years, rather than months away.

Executive Summary

COVID-19 represents a substantial negative shock to the NZ and global economy, arguably of greater severity than the Global Financial Crisis (GFC). Physical distancing and border closures have incurred a more significant toll on some sectors more than others, with the tourism sector being the most visible casualty.

We are dealing with a global pandemic and what will pan out is highly uncertain. With no imminent cure on the horizon, it could be years, rather than months, before the tourism sector can return to normal.

NZ's inbound tourism sector is a larger share of the economy than is the case for most of NZ's trading partners. The pending hit to the NZ economy is also likely to be proportionately larger. The irony is that despite NZ having addressed the health challenges posed by COVID-19 better than most, our isolation will count against us in trying to attract long-distance travellers from key markets. Domestic tourism within New Zealand is 40% larger than inbound tourism, and the switch towards domestic tourist experiences of New Zealanders will lessen the economic hit.

Despite this, our estimates suggest that, with closed borders, NZ's GDP will be 3-5% lower than it would otherwise be. Job losses are expected to be sizeable, with large direct impacts in the accommodation, hospitality, transport, educational and retail sectors.

Tough decisions on whether some business operations will remain viable will need to be made. Business failures and job losses in the tourism sector look inevitable which will be gut-wrenching for people whose livelihoods are threatened by the outbreak. Now is the time for firms and employees in the tourism sector to check whether their strategic direction is best aligned to operate in the new economic landscape. It may involve some tweaking of investment and hiring decisions but should ultimately bolster economic resilience.

COVID-19 will not be the last challenge NZ or the world faces. Think of COVID-19 as a shot across the bow.

From boom to bust

International tourism had been a major growth sector. According to figures provided by the United Nations World Tourism Office (UNWTO), global tourism flows have increased from just 25 million people in 1950, to 166 million in 1970, 435 million in 1990, to a whopping 1.4 billion visitor arrivals by 2018. Tourism to NZ has also ridden this wave, with a 3.5-fold increase in visitor arrivals to NZ since 1990 (versus 3.2 times globally). Inbound tourism into NZ is just a drop in the bucket, accounting for just 0.3% of global flows.

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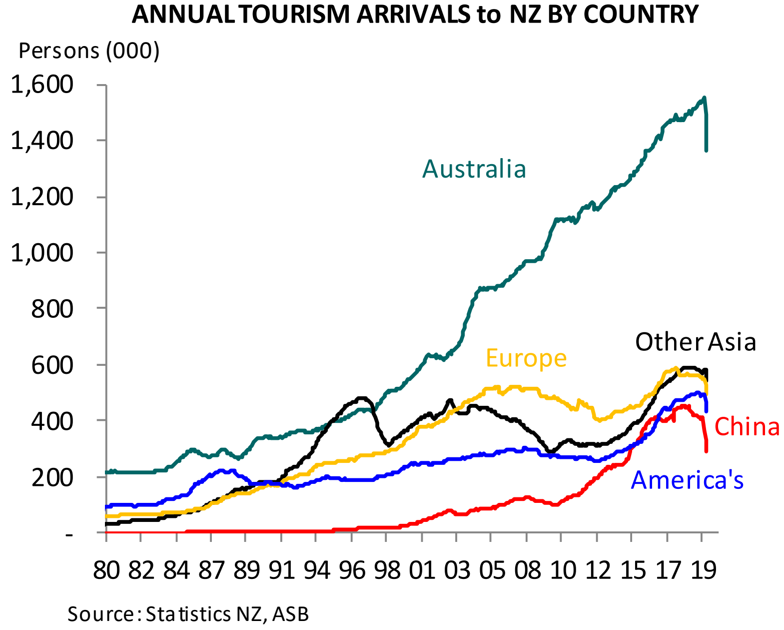
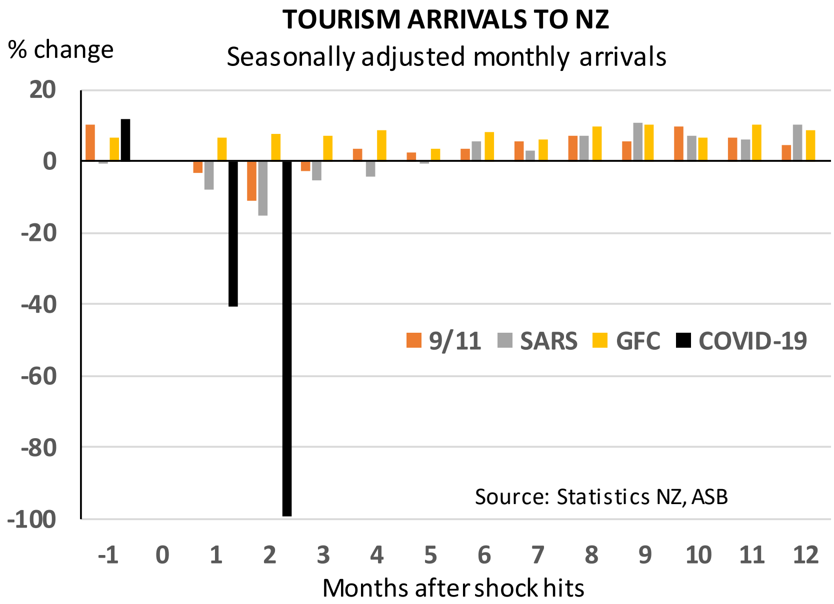
The number of overseas tourists into NZ peaked at just over 3.90 million visitors in late 2019, having more than doubled since late 2001. By comparison, NZ's real GDP has risen by about 60% over that period, and export volumes have risen by two-thirds. Growth in NZ visitor numbers was particularly rapid in the mid-part of the last decade, with strong growth in arrivals from Australia and Asia. The global tourism boom, growing middle class in Asia, and increased connectivity via more direct flights to Australia were major catalysts.



COVID-19 has delivered a king-hit to the global tourism sector. According to the UN World Trade Organisation(UNWTO), almost all destinations have COVID-19 restrictions in one form or another, with three quarters of all destinations worldwide (including NZ) having borders completely closed for international tourism. International tourism arrivals in the April 2020 year were down 44% on the previous year. Falls have been the most acute in the Asia Pacific Region (down 51%). Falls in the April month have been unprecedented, with just 3.5 million inbound tourists, down 94% to 98% on April last year.



The closure of NZ's borders to Chinese visitors from early February and other destinations on March 19 to halt the spread of COVID-19 has resulted in the flood of inbound tourists turning into a trickle. Arrivals to NZ fell to 3.46 million arrivals in the April 2020 year, with just 1,700 arrivals in April. About half of the moderation is fewer visitors from Asia. Compared to past events the hit to NZ tourism arrivals, the hit has been more sudden and a significantly larger magnitude.

Border restrictions to remain for a while yet, and travel preferences may change

Previous events – including 9/11 (2001), SARS (2003), and the Global Financial Crisis (2009) – have resulted in short-lived disruptions. However, the current spike in global COVID-19 cases suggests movements for international travellers will be miniscule for a while yet. COVID-19 is proving a tough nut to crack. Border restrictions are unlikely to be relaxed until a vaccine is available or the outbreak can be successfully contained. To us, this looks a long way off.

Recent research from the International Air Transport Association (IATA) also suggests that a swift rebound is unlikely:

- Global passenger numbers are expected to be 32%-41% below pre-COVID-19 levels by 2021.
- Global passenger numbers are not expected to top pre-COVID-19 levels until 2023.
- Global domestic trips are expected to move above pre-COVID-19 levels by 2022. In contrast, international travel is unlikely to move above 2019 levels until 2024.
- Airline capacity is significantly reduced and the costs of travel rise.
- Falls in average trip length with an increased preference for short-haul trips and aversion to long flight times.

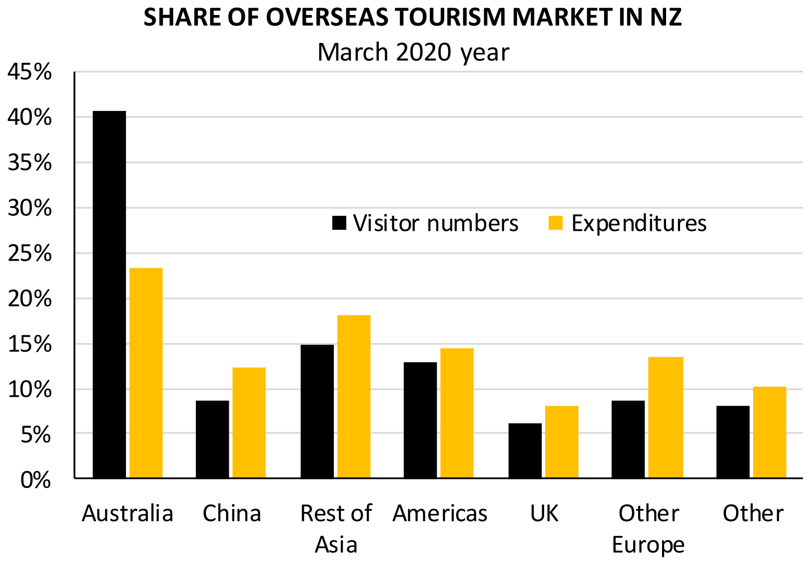
There could be some benefit to NZ if the switch to shorter flight times prompts more air travel from Australia. Australia accounts for about 40% of international arrivals to NZ but is less than 25% of international tourism expenditure in NZ. Moreover, two-way flows are broadly offsetting, with NZ the largest visitor market in Australia. The costs and benefits of relaxing border restrictions need to be carefully weighed given the impact it might have on NZ tourism overseas. Tourism is a two-way street (or runway in this case) and many of the perceived benefits may not arrive. We will examine what the potential impacts of a Trans-Tasman bubble could be in a follow-up note.

However, the upshot is that despite NZ having addressed the health challenges posed by COVID-19 better than most, our isolation will count against us in trying to attract long-distance travellers from key markets. Overseas tourism constitutes a proportionately greater chunk of NZ's economic activity. It accounts for about 5-6% of NZ's GDP, around twice that of Australia, the US and UK, and three times that of Japan, but below that of France, Italy and Spain. Location clearly matters. According to the UNWTO, around 80% of tourists travel within their own region, which benefits regions such as Europe. The average stay of visitors to NZ is around 19 days, typically longer than for other destinations.

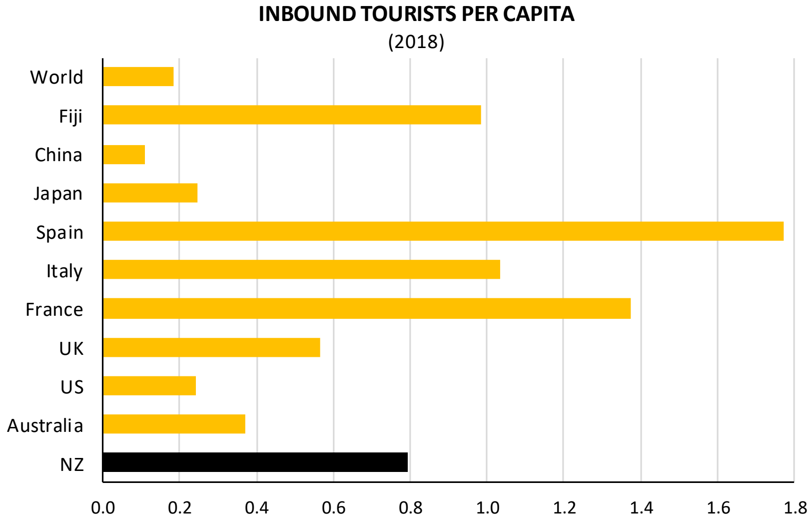
Don't forget domestic tourism

While the focus is on the overseas visitor tap being tightened, domestic tourism is actually larger. According to the 2019 Tourism Satellite Account, around 60% ($23.6bn) of the $40.9bn in total tourism-related expenditures are either directly or indirectly generated by domestic tourism. This leaves the remaining $17.3bn, which also includes expenditures from international students residing for less than 1 year in NZ (close to $4bn).

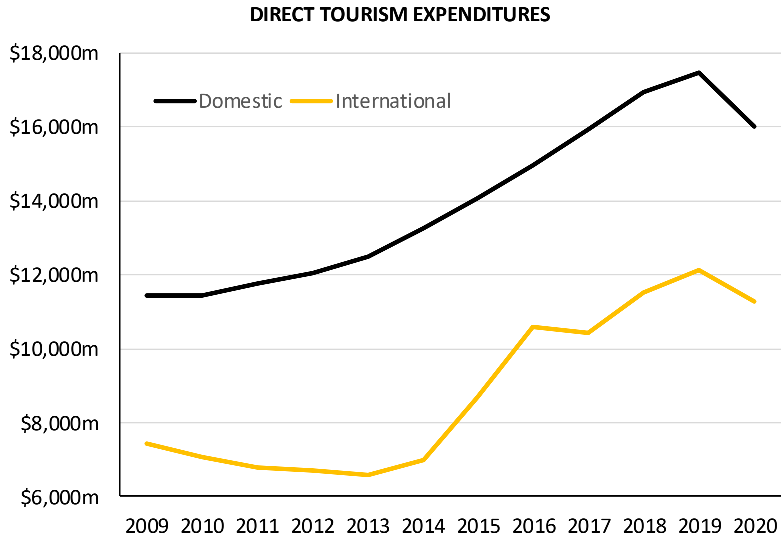
Domestic tourists outspend international counterparts on most types of tourist-related expenditures, apart from a few notable categories, including accommodation and food & beverage services. Unfortunately, figures from Statistics NZ suggest that financial positions of firms in the hospitality are generally less robust than for other sector making them more vulnerable to a sharp drop in revenues.



Source: Statistics NZ, MBIE

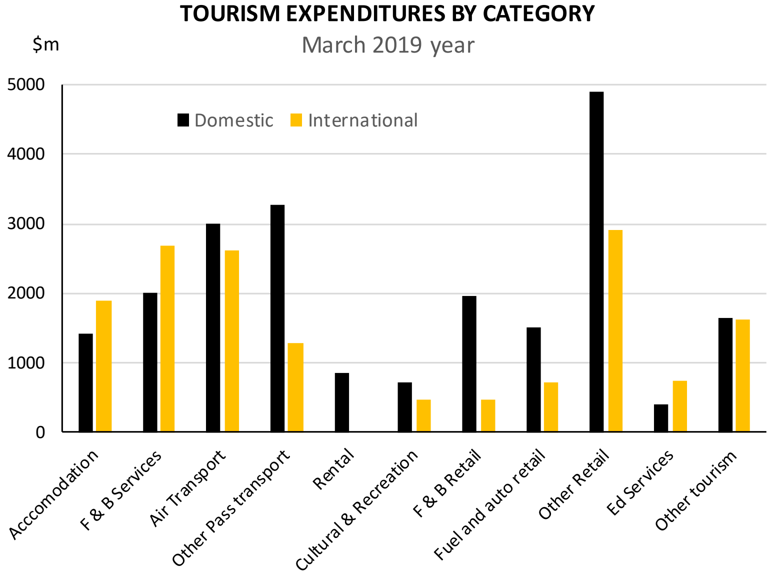


Source: UNWTO



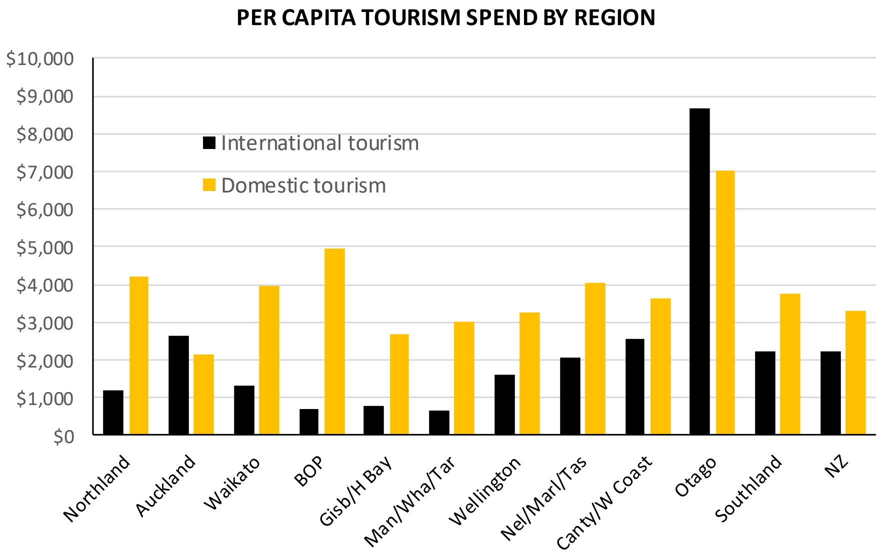
Source: MBIE

MBIE figures also suggest about a 60:40 split for direct tourism expenditures, with domestic expenditures ($16bn in the April 2020 year) about 40% higher than expenditures by overseas tourists in NZ ($11.3bn). The growth in domestic tourism expenditure (40% over the last decade) has lagged the 60% climb in spending by overseas tourists. More than half of the nearly 50% growth in total tourism expenditure has come from domestic tourists.



Source: Statistics NZ

Moreover, regional tourism estimates from MBIE show that domestic tourism significantly outstrips overseas tourism in all but two of the major regional areas – Auckland and Otago (which includes Queenstown). Even in those regions, domestic tourism is not far behind. In a follow-up note we will look more closely at tourism in the regions and domestic tourism.



Source: Statistics NZ, MBIE, ASB

Increasing job losses from COVID-19 could likely see domestic tourism weaken, with NZ households expected to tighten their belts and re-prioritise expenditures towards the essentials. Average incomes of NZ citizens are well below those in Australia, the US and other major inbound tourism markets. However, with NZ's borders effectively shut, kiwis with the available means could take the opportunity to look around NZ more instead. Outbound tourism is big; around 2% of GDP per annum according to the Balance of payments figures, with around 3 million kiwis travelling overseas each year. Timing could be favourable and help support the pending 2020Q3 rebound in activity we expect, with NZ short-term departures typically the highest during the winter months.

Gauging the economic impact of lower overseas tourism

Impacts on NZ's GDP

Tourism includes many aspects of economic activity, and there is no set measure of tourism in the national accounts. The NZ System of National Accounts (SNA) has two major categories for tourism. The first category is tourism-characteristic industries which include accommodation, food & beverage services and transport. Tourism-related industries include retail trade and education & training.

About two-thirds of the $40.9bn in overall tourism spending ($27.3bn, about 9% of GDP) is categorised as value added, of which $16.2bn (5.4% of GDP) is the direct contribution of tourism and tourism-related industries. Less than half of this would be from international tourism.

In looking at services export figures in the Balance of Payments, travel exports were a shade under $16bn in the March 2020 year, roughly 5.1% of GDP (see chart). Of this, inbound personal tourism accounted for 3.7% of GDP, educational exports for 1.4% of GDP and business/government tourism into NZ at just under 0.1% of GDP.

Imports of tourism (i.e. spending by NZ tourists overseas), by contrast are around 2.1%. Of this, 1.7% of GDP is for outgoing personal tourism of NZ residents, with the remainder from business/government trips abroad and NZ students studying overseas. This leaves net exports of tourism at around 3% of GDP (see second chart). This net export balance largely reflects the net inflow of personal tourism to NZ and positive net exports of education.

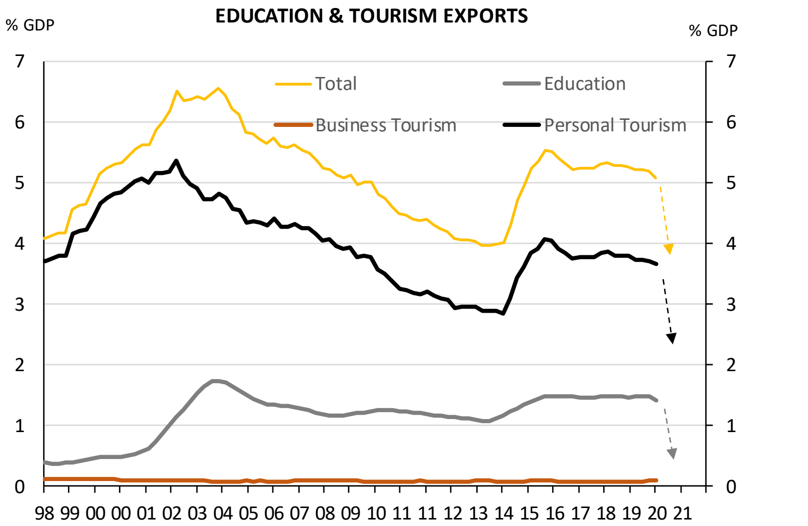
All up, we consider the hit to the NZ economy from the closure of our borders to be in the region of 3% to 5% of GDP. We consider 3% of GDP to be the lower bound of a potential range of estimates of the net impact on the NZ economy of foregone tourism spending. Our work on sector analysis uses input/output analysis to track the linkages of the economy. The input/output multipliers for tourism-related sectors are in a 1.5 to 1.8 range, averaging 1.65. Applying that multiplier to the net loss of tourist spending suggests the full GDP impact will be around 5% of GDP.

Impacts on the NZ labour market

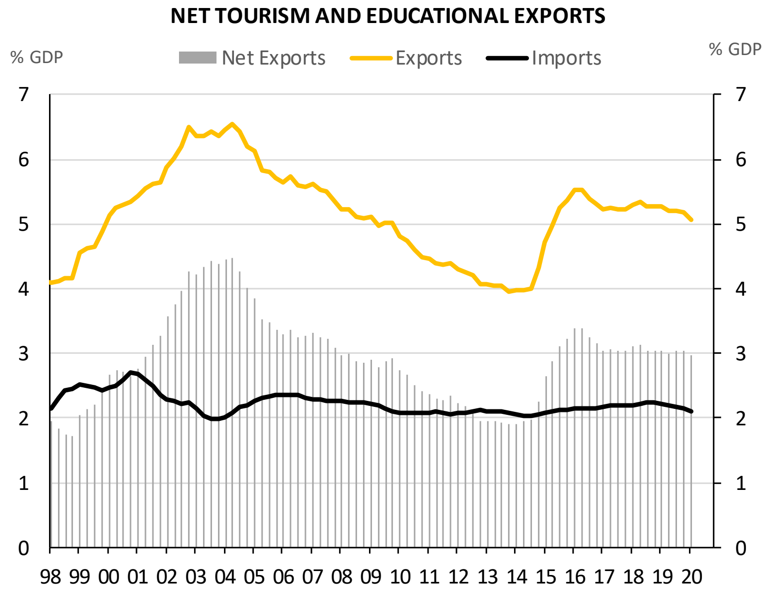
Tourism is an employment-rich sector (directly accounting for more than 8% of employment and 230,000 jobs according to the 2019 NZ Tourism Satellite Account). There are higher proportions of tourism-related employment in the accommodation, hospitality, broader retail and transport sectors.

Shutting off the international tourism tap will have sizeable implications for NZ employment. The phasing out of the Government's wage subsidy, which finally ends in September (see our COVID-19 Chartpack for the latest figures), will see job losses lift in the sector. A sizeable chunk of the nearly 150,000 net fall in employment we expect by the end of the year will likely be either directly or indirectly linked to inbound tourism.

Net immigration will have a bearing on the growth in the labour market and potentially the climb in employment. There is the view that the outbreak of COVID-19 will set see permanent and long-term inflows slow from a flood to a trickle and lead to a protracted period of very low net immigration to NZ. Permanent and long-term net immigration has fallen to virtually nil during the level 4 lockdown. It is early days, however. NZ's reputation as a global safe-haven and allure as an immigration destination will likely have been enhanced by our success in containing



Source: Statistics NZ



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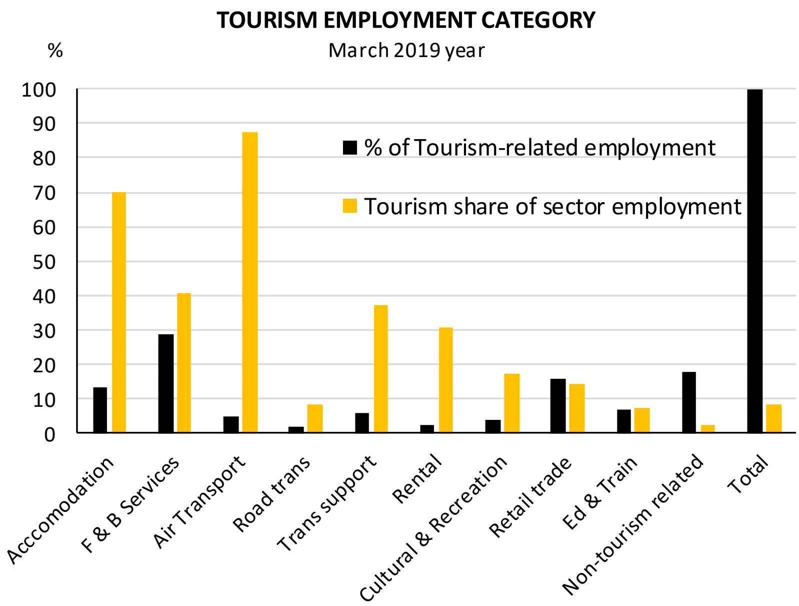
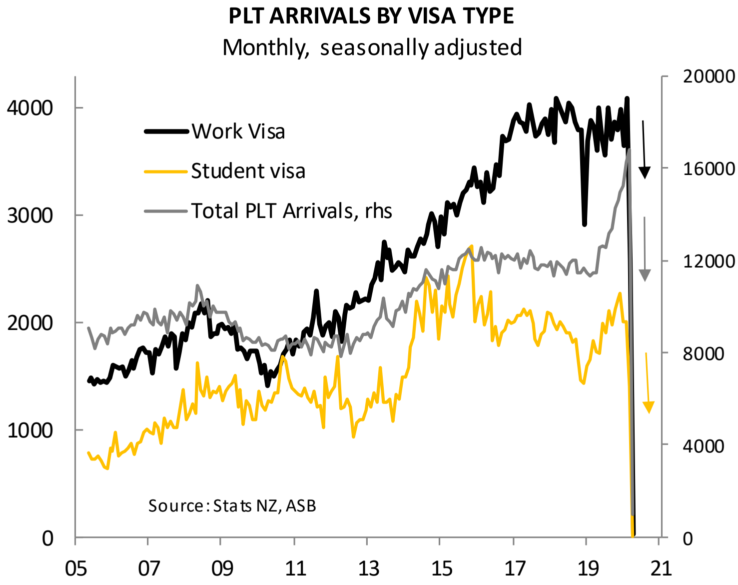


Source: Statistics NZ

COVID-19.

Even if net immigration remains low, and the unemployment queues are shorter than they would otherwise be, this will throw up other challenges. NZ has tended to import labour when needed to address skill shortages. Considerably more onus needs to be placed on NZ workers to upskill. An attitude shift may also be required to fill vacancies that kiwis were previously reluctant to fill.



The importance of creating resilience

COVID-19 has delivered a king hit to one of the key growth sectors of the NZ economy. One of our economic engines has run out of fuel and it is unclear how far away the next re-fuelling stop is.

Policymakers have helped to soften and delay the pending hit to the economy. The wage subsidy has provided impacted firms with some breathing space. With our borders likely to remain shut for a while yet this will only be a temporary respite.

Tough decisions on whether some business operations will remain viable will need to be made. Business failures and job losses in the tourism sector look inevitable which will be gut wrenching for many people whose livelihoods are jeopardised. Now is the time for firms and employees in the tourism sector to check whether their strategic direction is best aligned to operate in the new economic landscape. It may involve some tweaking of investment and hiring decisions but should ultimately bolster economic resilience. Greater focus on extracting more value rather than one of increasing volumes (i.e. increasing visitor numbers) could prove to be a useful starting point. The Government's focus on upskilling and retraining in the 2020 Budget was particularly welcome, providing workers and firms with help in transitioning towards the post-COVID-19 economic landscape.

COVID-19 will not be the last challenge NZ or the world faces. Dealing with climate change poses arguably bigger challenges, which are more incremental in nature compared to the abrupt nature of the current shock. Think of COVID-19 as a shot across the bow. The saying goes: don't waste a good crisis. COVID-19 has demonstrated our ability to work together, adapt, think, work and live differently. It has also underscored the importance of being prepared. This will help to build up our resilience as an economy and as a society.

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