

### Tourism's rise to the top

- Tourism has overtaken dairy as New Zealand's number 1 export.
- Tourism makes up 5.6% of NZ GDP, ahead of dairy's 3.5%.
- The short-term outlook remains rosy, with the Lions Tour following the recent World Masters Games.

#### Summary

New Zealand has been enjoying a tourism boom, with several years of sharp growth in international visitors. Not only has this made tourism a key industry for New Zealand, but it has now surpassed dairy as the nation's chief export earner.

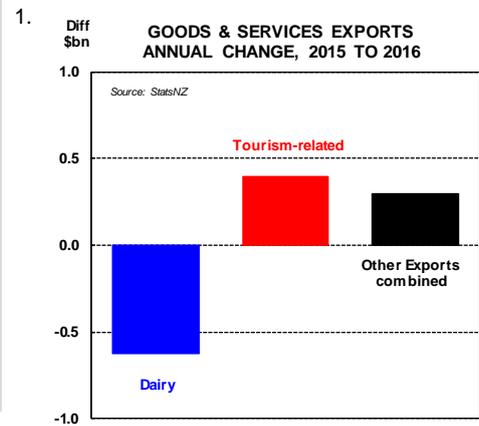
For the year ending December 2016, total exports of dairy and related products were \$12.05bn, accounting for 17.2% of all exports. Over the same period, tourism (including air travel) was worth \$12.17bn, or 17.4% of exports. These compare to 18.2% and 16.9% (respectively) for 2015, showing the increasing importance of tourism to the NZ economy. After these two industries, the next largest export is meat, all the way back on 8.4% of total exports, leaving tourism and dairy well out in front.

The \$12.17bn spent in 2016 was just the earnings from international tourism. There is also a thriving domestic tourism industry as well. The most recent Tourism Satellite Account data (released annually, latest data for the year to March 2016) estimates domestic tourism was actually worth even more than international tourism, at \$20.2bn over the prior 12 months. This pushes tourism even further ahead of dairy as an industry. On a GDP basis, dairy is directly responsible for around 3.5% of the economy. In addition, dairy is also responsible for around 1.5% of GDP via downstream food and manufacturing activity, taking total to around 5% of GDP. The tourism satellite account attributes 5.6% of the economy to tourism (both international and domestic), with a further 4.3% indirectly contributed.

Before delving too deep into tourism facts and figures, we should acknowledge that measuring tourism revenue is challenging for Statistics NZ. This is because when, say, a café in a tourist area serves a customer, that customer is not asked where they are from, why they are here nor any other exact expenditure recording done. Instead Stats NZ applies a ratio to divide spending to determine what spending is applicable to tourism, which is then further split between domestic and international tourism spending. This obviously leaves more room for error than measuring merchandise export shipments

In employment terms, tourism directly employed 188,136 people as of March 2016, around 7.5% of total employment. However, the manufacturing, education, healthcare and construction sectors all individually employ more people than tourism. Dairying numbers are even smaller: a recent study by the NZIER estimated that over 40,000 people are directly employed in dairy.

In the year to February 2017, a total of 3,544,219 short-term visitors arrived in New Zealand. That includes people traveling for tourism, visiting family, business trips and other reasons. The increase to 3.5 million visitors per year has been rapid. Short-term international arrivals doubled in just 17 years, with one million added in the last 6 years alone.

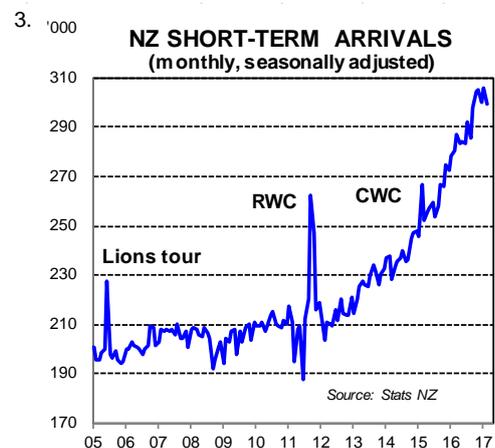


2. NZ Goods and Services Exports (Values \$m)

	2015	2016	Change	%
Dairy	12,683	12,054	-628	-5%
Tourism*	11,774	12,167	393	3%
All other exports	45,088	45,862	295	1%
<b>Total Exports</b>	<b>69,544</b>	<b>70,083</b>	<b>539</b>	<b>1%</b>

\*Includes business & personal travel services, air transport

Source: Statistics NZ



4. VISITOR ARRIVALS FROM CHINA (annual totals)



The rapid increase in visitors has put some pressure on resources, leading to price increases. This has, in turn, led to some anecdotal evidence that some visitors are starting to turn their attention to alternative destinations, although there has been little empirical evidence so far.

The current breakdown of arrivals shows **Australia is by far and away the main source of visitors**. These arrivals will include a number of Kiwis visiting home (the data classify arrivals by residence, not citizenship). Over the last 8 years or so, **Australia has accounted for 40-45% of annual arrivals**.

**One of the main sources of growth has been China**. Chinese visitors currently account for around 12% of total arrivals. **That is treble the 4% seen 8 years ago, when the size of the tourism sector was substantially smaller**. Indeed, 8 years ago, annual visitor arrivals from China were around 110,000. As of March 2017, that figure is just over 400,000. **The third-largest source of arrivals is the US, with around 300,000 a year, approximately 9% of the current total**. Other major sources of arrivals are the UK, South Korea, Japan and Germany.

As the number of short-term visitor arrivals has expanded, so has total spending. **In 1997 total visitor spending was \$3.854bn**, according to the International Visitor Spending survey. **By the end of 2016 that has almost trebled to \$10.085bn**. However, total spending did not rise in a smooth line, with a growth period between 1997 (the earliest year data are available for) and late 2001, when it was around \$7bn. It then held in a \$7-8bn range until 2014, when the current sharp boom started.

The drivers behind the most recent boom are varied. These include the **growth of the Chinese middle-class**, both in terms of number and in terms of wealth. It is also easier and cheaper to get to NZ now, with extensive growth in the number of airlines flying to NZ and the routes that have opened. **The impact of The Lord of the Rings and Hobbit films in showcasing NZ cannot be underestimated**.

As well as technological changes and demographic changes, there have also been a number of event-specific reasons to visit New Zealand. **The 2011 Rugby World Cup and 2015 Cricket World Cup boosted arrivals significantly**. **The RWC may also have helped the tourism industry recover from the 2010/2011 Canterbury earthquakes** at a quicker pace than otherwise may have been achieved.

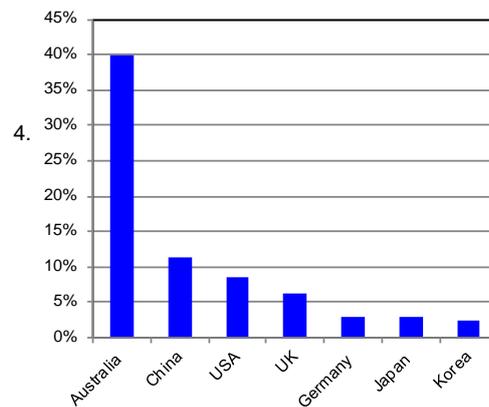
There are **two more key events this year** which should give tourism a further lift. The first is the **World Masters Games in Auckland** over April 21-30. The games have 27,000 athletes, of which 16,000 are international (vs 11,237 at the Rio Olympics). Most are aged 40-59, with an **average income of \$145,000**. After 10 days of games the international athletes are expected to spend a further 9 days on holiday in NZ. Auckland's economy is forecast to be boosted by \$30mn.

The second event is the **British and Irish Lions rugby tour in June/July**. The 2005 tour saw an additional circa 30,000 tourists (seasonally-adjusted arrivals data), with a similar number of match tickets available as for this year's tour. That prior tour had, according to the Treasury, an **economic benefit of \$135mn to NZ**. This time round the estimated boost is an impressive \$240mn.

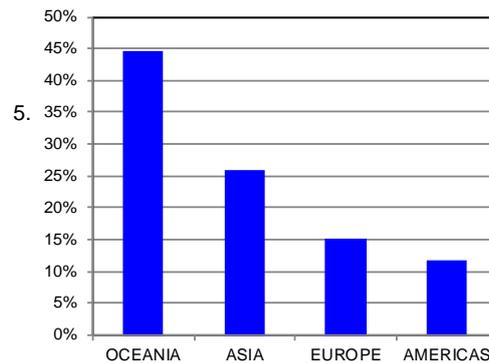
Overall, the **New Zealand tourism sector is in rude health**. Demand is strong but the main short-term challenge is for the infrastructure to meet demand.

In the next edition of Tourism: Comings & Goings, **we will look at changes in international tourism expenditure over time and what drives them**.

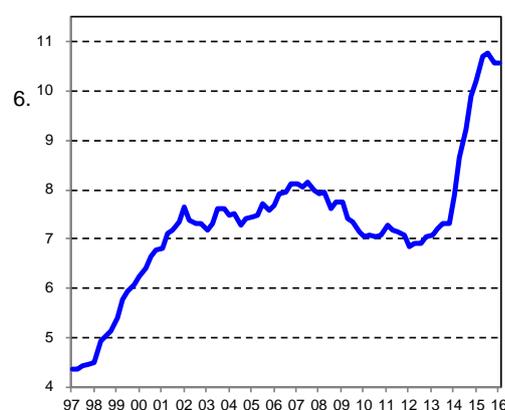
ANNUAL ARRIVALS BY COUNTRY



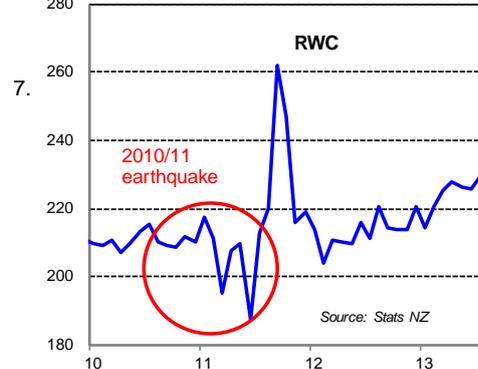
ANNUAL ARRIVALS BY CONTINENT



TOTAL VISITOR SPEND IN NZ



NZ SHORT-TERM ARRIVALS (monthly, seasonally adjusted)



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