18 September 2013

Westpac Institutional Bank

Sleeping beauty is awake

Tourism sector update

- **The tourism sector has been in the doldrums for most of the last ten years.**
- **Its share of output and employment has fallen as key markets have entered decline and the financial crisis has hit spending on luxuries like travel.**
- **However, 2013 has started buoyantly for the sector.**
- **We expect this upturn to continue over 2013 and 2014, particularly as the Chinese market grows, other traditional markets stabilise and Christchurch reopens for business.**

Summary

After being in the doldrums for most of the last 10 years, we expect the tourism sector to go through a cyclical upturn over the remainder of 2013 and through 2014. At the same time, the structural lift in Chinese visitor arrivals will continue to shape the industry.

This cyclical upturn will come as Christchurch re-opens for business and the fear factor from the earthquakes continues to subside. Also, we expect the US market will build on recent improvements while the UK and German markets will continue to stabilise. On the flipside, growth in the Australian market may weaken as Australian economic growth eases and the New Zealand dollar rises against its Australian counterpart.

Overlaying all of these cyclical developments is the powerful trend increase in arrivals from China. Arrivals from China increased by nearly 50,000 in the most recent year. Airline capacity and other factors permitting, we expect a similar increase over the year ahead.

Tourism Quick Facts

Tourism value added (March 2012 year)	
Direct	$6.2 billion
Direct and indirect	$12.4 billion
As a share of GDP (direct and indirect)	8.60%
As a share of GDP (March 2002 year)	9.70%
Employment (as at March 2012)	
Direct (FTEs)	120,000
Direct and indirect (FTEs)	187,000
As a share of total employment	9.60%
As a share of total employment (March 2002)	10.30%
Markets	
Largest (by arrivals, by spend)	Australia, (45%, 30%)
Fastest growing (change in arrivals in the year to July 2013)	China, (up 49,000 or 27%)
Fastest falling (change in arrivals in the year to July 2013)	UK, (down 22,000 or 10%)

Source: Statistics NZ

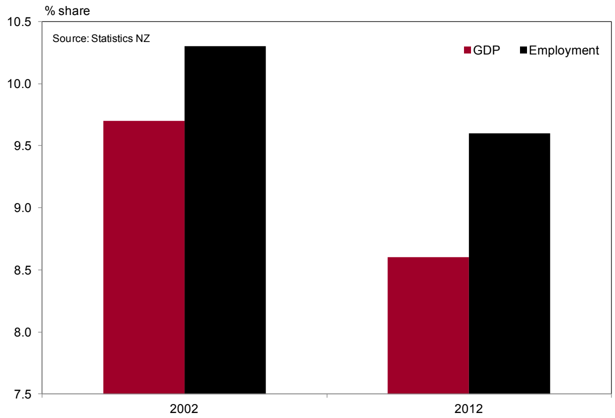
This bulletin provides a snapshot of the New Zealand tourism industry. In particular, we explore its performance over the last ten years and its prospects for 2013 and 2014. We also limit our analysis largely to visitor arrivals rather than spending per arrival.

For information on the long-term outlook and analysis on visitor spending, we recommend the New Zealand tourism outlook authored by NZIER on behalf of the Ministry of Business, Innovation and Employment.[1]

Tourism has been in the doldrums...

The tourism industry has been in the doldrums over the last decade. Since 2002, the sector's share of GDP and employment have both fallen.

Tourism's share of GDP and employment

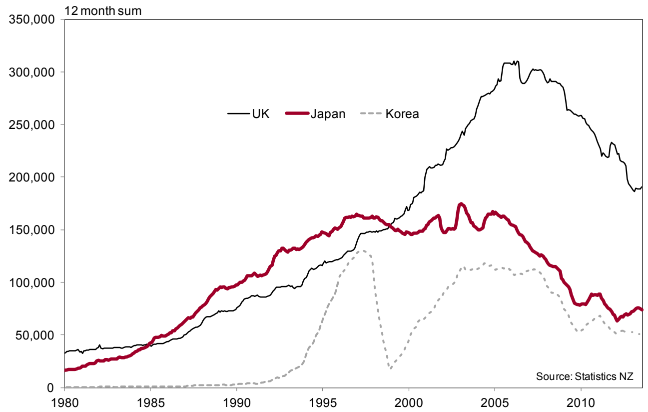


Key to these falls have been the declines in the Japanese, UK and Korean tourist markets. Arrivals from Japan stagnated in 1996 following the stagnation in its economy. Outright decline in Japanese arrivals began in 2004, with annual arrivals currently running at half 2004 level. Korean arrivals stagnated in 2003 with outright decline starting in 2007. Similar to Japan, current annual arrivals are roughly half their peak (2007) level.

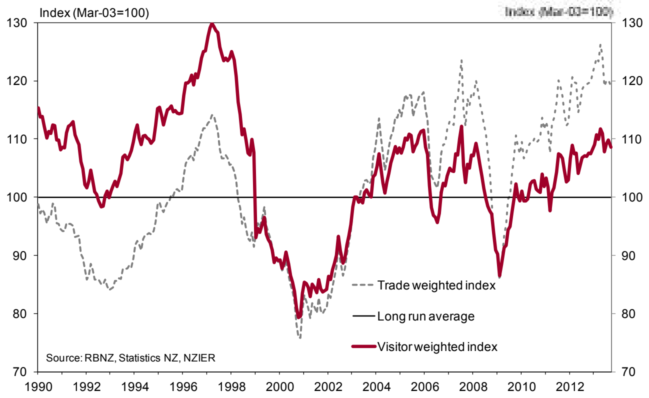
The financial crisis has hit the UK market hard. The number of arrivals has seen dramatic change over the last ten years. Between 1998 and 2006 annual arrivals more than doubled from 150,000 to around 310,000. Since then, the decline has been similarly steep, with annual arrivals now at 190,000 or a 120,000 decline.

1 http://www.med.govt.nz/sectors-industries/tourism/tourism-research-data/forecasts/2013-2019-forecasts

International Visitor Arrivals - Selected Countries



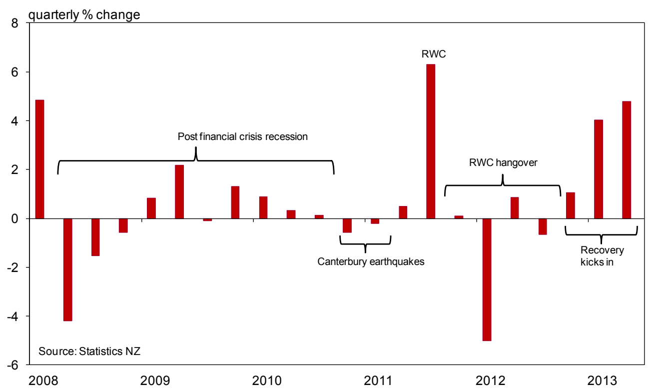
New Zealand Dollar Index



...with the Canterbury earthquakes compounding the impact of the Financial crisis

The Canterbury earthquakes compounded the impact of the Financial crisis on the sector. In both the December 2010 and March 2011 quarters, tourist arrivals declined (by 0.6% and 0.2%) after having increased over the four quarters prior.

Seasonally adjusted international visitor arrivals



The currency has also been a drag on the sector...

The New Zealand dollar has also been a headwind for the sector. For most of the last ten years, the currency has traded above average against the currencies of both our major trading partner and our tourism markets.

However, the strength of the Australian economy saw the Australian dollar rise against the New Zealand dollar in recent years. This boosted the number of Australian tourists arriving in New Zealand. In fact, the chart shows that taking the size of the Australian tourism market and the strength of Australian dollar into account, the high currency has been less of drag on the tourism sector than it has been for the wider export sector.[2]

Canterbury is open for business

The Canterbury earthquakes knocked out a large chunk of the region's accommodation capacity. Guest nights in Canterbury were at one stage over 40% lower than in the year before the earthquakes. This lower capacity was compounded by tourism operators being unwilling to book tours for the 2012/13 summer because they were uncertain that accommodation would come back online in time.

However, rooms are now ready and more are on the way. Plus the welcome mat for tourists is back out. At the same time, the fear factor around the earthquakes is diminishing.

Accordingly, Canterbury guest nights are improving. Through the middle of this year, guest nights have been around 27% below pre-earthquake level and are growing at 25% annually compared to 10% in the rest of the country.

With around 600 hotel or apartment rooms coming online over 2013, the number of guest nights is rapidly heading back to pre-earthquake levels. Using a (lower) pre earthquake occupancy rate, we expect that by this time next year guest nights will be around 10% less than the pre-earthquake level. And by the end of 2014, the number of guest nights may in fact go close to equalling pre-earthquake levels.

Christchurch Accommodation

Accommodation	Number of rooms
Re-opened in 2013	
Rendezvous Hotel	171
Quest Serviced Apartments	77
Chateau on the Park	80
Novotel	144
Re-opening soon	
Latimer Hotel	125
2013 Total	**597**

Source: CERA

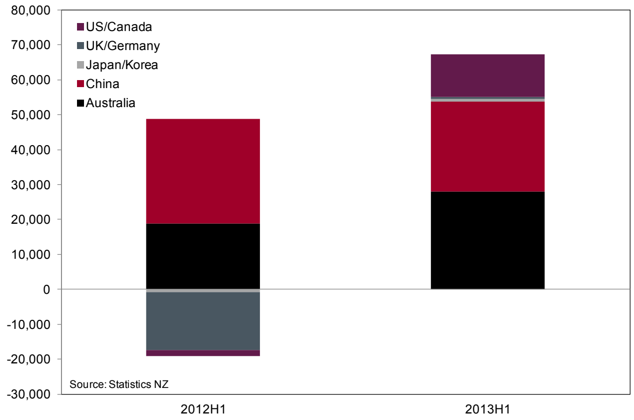
2 The New Zealand dollar trade-weighted index weights exchange rates by shares of goods traded with New Zealand and shares of world GDP. Effectively this is the exchange rate facing the goods trade sector. The visitor-weighted index weights exchange rates by visitor arrival shares, giving the effective exchange rate facing the tourism sector.

Overall, arrivals have turned a corner

2013 arrivals have got off to a rollicking start. March quarter arrivals picked up 4% and then jumped a further 4.8% in the June quarter.

Moreover, arrivals from all of the main markets increased or held their own in the first half 2013 compared to the first half of 2012. In particular, this represents a major turnaround for the UK and Germany and for North American markets.

Change in International Visitor Arrivals



The US market is growing again, while the UK and German markets have bottomed

In the first six months of 2013, the number of US arrivals is up around 12,000 compared to the same six months a year ago. This increase coincides with improving sentiment in the US economy.

While the jury is out on the pace US growth over the remainder of 2013 and into 2014, most agree that an economic recovery is in place. As a result, we expect more of the same from the US tourist market – it will continue to grow over 2013 and 2014, and it remains only a question of by how much.

The European economy is stabilising. June quarter GDP rose 0.3% after six consecutive quarterly declines. The UK economy lifted 0.8% over the same period to be 1.6% higher than a year ago.

Tourist arrivals from the UK and Germany have also turned a corner. In the first six months of 2013 they rose nearly 600 compared to the first six months of 2012. Not a shabby effort considering the first six months of 2012 were nearly 17,000 lower than the same period in 2011.

While risks remain to the outlook for the European economy, the worst may have past for the UK. As a result, we expect arrivals from these markets to improve. We won't necessarily see any growth. Rather, arrivals may stabilise at current levels.

The structural lift in Chinese arrivals will continue

The Chinese market is charging ahead. In the year to June 2013, the number of arrivals grew by just under 50,000 or over 25%.

Strictly speaking, the Chinese economy is in a cyclical slowdown. We expect GDP growth to slow to 7.4% and 7.1% in 2013 and 2014 from 7.7% recorded in 2012.

The long-run prospects for the Chinese market remain strong, however, and should swamp any cyclical slowdown. With the number of Chinese middle class expected to more than double by 2020, growth in this market has a long way to run.

Moreover, while overall Chinese economic growth is slowing, consumption's share of the economy is expected to grow at the expense of investment and exports. This will increase demand for not only New Zealand's food exports, but for tourism as well.

However, growth in the Australian market should slow

The Australian economy is slowing. We expect 2.5% and 2.3% growth in 2013 and 2014, which is below the long run average of 3.2%

Also, the Australian economy is slowing at a time when the New Zealand economy is picking up pace. This has implications for the exchange rate – we expect the New Zealand dollar to strengthen against its Australian counterpart over 2013 and to maintain that strength over most of 2014.

Overall, this should put a damper of Australian visitor arrivals. But the market should still grow modestly as travel to New Zealand is short-haul and often for visiting friends and family. This large part of the Australian market is less sensitive to changing economic fortunes.

Sleeping beauty is awake

The sector has faced many headwinds over the last decade. However, it appears that a number of positive factors are coming together at this time. While the sector remains vulnerable to shocks, all in all, we expect the recent revival in tourist arrivals to continue over 2013 and 2014.

Nathan Penny
Economist

Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Any questions email:
economics@westpac.co.nz

For email address changes contact:
WNZResearch@westpac.co.nz

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