

# ECONOMIC OVERVIEW SPECIAL TOPIC

**Tourism.**

October 2023



# SPECIAL TOPIC: TOURISM

## A little ray of sunshine

**Overseas visitor arrivals remain below pre-pandemic levels but are providing support to tourism dependent sectors and regions. The recovery will continue but, beyond next year, the industry's challenge will be to sustainably grow while adding value.**

Since the borders re-opened 18 months ago, tourism has steadily recovered. Australasian visitors returned first, followed by travellers from far off markets in Europe and North America.

Conditions have now normalised. New Zealand and Australian visitors are now around 85% of pre-pandemic levels, while other visitor arrivals have grown more and reached pre-pandemic levels during the Women's Football World Cup. Chinese tourists continue to lag at about 40% of 2019 levels.

The return of foreigners has been a ray of sunshine in what is a decidedly gloomy economic picture that features slowing economic activity, which we expect to persist for a while yet (see the discussion in the New Zealand Economy section of this report).

It's been good news for our more tourism dependent regions such as Otago, and to a lesser extent Southland. Our recent **Regional Roundup**, reported that hospitality providers and tourism operators in both regions saw improved operating conditions.

We expect visitor arrivals to continue to grow and return to pre-pandemic levels by the second half of 2024. Trends in airline forward capacity suggest further tourism growth. For example, United, Air China, China Southern and Air Canada have expanded capacity on existing routes and/or are adding new routes in anticipation of additional demand. More uncertainty relates to Chinese tourist volumes where the recovery has stuttered, despite China being our second largest source of visitors prior to Covid-19. It has taken some time for the Chinese tourism sector to overcome the administrative hurdles presented by the post-pandemic environment, but a reported pick up in outbound travel during Golden week in October suggests better times ahead.

Some headwinds could slow the pace of visitor arrivals. The cost-of-living crisis playing out in several key source markets looms large in this regard. Geo-political tensions in Eastern Europe and Middle East may also force some to re-think their travel plans.

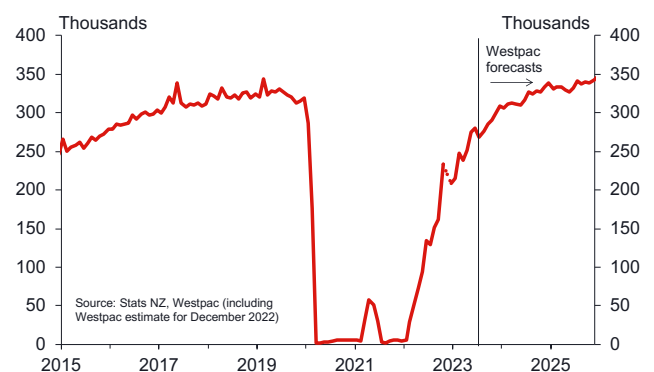
However, getting visitor arrivals back to pre-pandemic levels is likely to be the easy bit. The bigger question is how the industry can add value and grow sustainably once visitor arrivals reach the 3.9m pre-pandemic norm.

Prior to Covid-19, New Zealand was struggling to sustainably accommodate the volume of people wanting to visit these shores. Problems like congested national parks, degraded natural attractions and creaking local infrastructure led to a poor visitor experience, placing an unfair burden on small communities and, to some extent, the New Zealand taxpayer.

The key question will be how the industry will grow and add value without imparting externalities to communities and the environment. A Tourism Industry Transformation Plan on how to achieve this is already underway<sup>1</sup>. As our recent report on the **tourism sector** points out, operators will need to improve how they seize and sense opportunities, as well as increase their adaptability to changing circumstance if they are going to succeed. Digital technologies will be key, including the use of Artificial Intelligence (see our special topic in this *Economic Overview*).

Significant growth in tourist volumes might yield short-term gains at the long-term cost of having historic problems re-emerge, leading to a degraded tourism offering. To manage these risks, the industry may need to consider having tourists cover some of the costs associated with their activities they currently get for free. The tight fiscal situation may make this inevitable as central and local government resources may not be available to cover the burden of keeping facilities and infrastructure up to standard. Such changes could better manage the externalities of tourism and could entice more tourists that are willing to pay extra for New Zealand's world class tourist attractions.

**Figure 21: International visitor arrivals**



<sup>1</sup>Tourism Industry Transformation Plan | Ministry of Business, Innovation & Employment ([mbie.govt.nz](https://mbie.govt.nz))

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