NEW ZEALAND TOURISM FORECASTS 2009 - 2015

SUMMARY DOCUMENT | NEW ZEALAND | AUGUST 2009

www.tourismresearch.govt.nz

MINISTRY OF TOURISM
TE MANATŪ TĀPOI

These forecasts establish expectations of international and domestic tourism demand at the national level. Regional level forecasts will be provided in separate publications later in 2009. This is a rich body of information for tourism and related sectors, to be used in planning and decision making.

The forecasts summarised in this document are drawn from the full forecasting outputs prepared by Covec Limited for the Ministry of Tourism.

The full set of outputs including pivot tables is available at www.tourismresearch.govt.nz/forecasts.

Image credit - Fern, Antonia Westmacott

CONTENTS

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Foreword

Hon John Key
Minister of Tourism
Prime Minister

It's a great pleasure to launch the 10th edition of the Ministry of Tourism's forecasts.

New Zealand has a number of competitive advantages in the tourism sector – our breath-taking scenery, our high-quality food and wine, our culture and the ingenuity and creativity of our tourism operators, as well as the huge potential we have to showcase our country during the 2011 Rugby World Cup.

If we are to make the most of these opportunities, it's vital that we plan well and anticipate demand for our tourism services. That's where these forecasts are so important.

It's clear that the global recession is having a noticeable impact on visitors to New Zealand with numbers down a few percent this year. But it is not all doom and gloom.

Tourist numbers from across the Tasman continue to grow. In the year to May we received one million visitors from Australia for the very first time.

And the projections for China are very promising. China is experiencing rapid growth in spite of the recession and New Zealand has only just begun to explore the potential offered by this massive and fast growing outbound tourist market.

I am confident that there will be more good news in the months and years ahead.

In the meantime, I hope that these forecasts will help you plan your operations so that you can continue to provide our visitors with the high-quality experiences, warm hospitality, and outstanding services they have come to expect.

Best wishes

John Key

Minister of Tourism
Prime Minister

Executive Summary

Inbound Tourism

This year's forecasting programme has been strongly influenced by the global recession. The contraction in most major economies has had a profound impact on travel activity worldwide, with the United Nations World Tourism Organisation (UNWTO) expecting a decline in global visitor arrivals of 4-6% in 2009. Recent data released by the International Monetary Fund (IMF) suggest that the global economy will begin to grow again in 2010, although the recovery is expected to be slow, cautious and uneven.

The recent outbreak of Influenza A (H1N1) has created additional uncertainty around the short-term outlook for tourism. The impact on travel to date has broad similarities to the early impact caused by SARS in 2003. SARS generated a sharp but temporary decline in international travel, particularly within Asian markets, but travel patterns returned to normal a few months later.

These influences have created a challenging environment for inbound tourism to New Zealand over the next 6-12 months. Long-haul arrivals will be most affected over this period, but these falls are likely to be partially offset by further short-haul growth out of Australia.

The outlook beyond 2010 becomes positive as world economies improve and normal travel patterns are re-established. There is, however, evidence of structural changes in travel demand for some inbound markets, for example Japan and South Korea. Recent shifts in these markets have been driven by responses to changing competitive environments, particularly with respect to the cost and availability of short-haul air travel.

The net effect of these changes is a softening of forecast growth rates relative to previous years.

The outlook for New Zealand includes:

- A fall in visitor arrivals of 4.2% in 2009 and a moderate recovery of 2.5% in 2010.
- A strong rebound in 2011, with visitor arrivals up 6.5%, driven by global economic recovery and an influx of visitors for the Rugby World Cup.
- A return to growth in the latter stages of the forecast period of around 3.5% per year.

In aggregate, visitor arrivals over the coming summer period (Nov-Mar) are expected to be down around 3% on last season with wide variation across markets and segments.

Total visitor arrivals are forecast to increase by 18.6% (455,000 arrivals) over the next seven years to reach 2.90 million by 2015. This represents an average growth rate of 2.5% per annum. The key growth markets over the forecast period are expected to be:

- Australia – increasing by 23.6% (230,000 arrivals) to 1.21 million from 2009 to 2015 (3.1% per annum). This represents over half of the forecast growth in visitor arrivals to New Zealand over the next seven years.
- China – increasing by 62.6% (70,000 arrivals) over the forecast period (7.2% per annum).

Australia and China are expected to contribute around two thirds of the growth in visitor arrivals to New Zealand in the next seven years. There are also good growth prospects for several emerging markets, particularly in Central Europe and South America.

Executive Summary

Table 1: Forecasts of International Visitor Arrivals to New Zealand (000s)

Inbound	Actual				Forecasts				Growth 2009-15		
Market	2008	2009	2010	2011	2012	2013	2014	2015	Change	Total	Annual
Australia	976	1,032	1,053	1,103	1,115	1,146	1,176	1,206	230	23.6%	3.1%
United States	212	186	184	199	210	217	225	232	20	9.2%	1.3%
Canada	53	48	49	53	56	58	60	62	8	15.5%	2.1%
Other Americas	30	30	31	33	35	37	39	41	11	36.4%	4.5%
Total Americas	296	264	264	286	301	312	324	335	39	13.1%	1.8%
Japan	102	74	78	85	89	93	97	101	-2	-1.6%	-0.2%
South Korea	79	50	56	63	71	77	82	87	8	9.5%	1.3%
China	112	96	118	129	141	154	168	183	70	62.6%	7.2%
Other Asia	156	144	152	157	161	164	168	173	16	10.5%	1.4%
Total Asia	450	364	405	434	462	489	516	543	93	20.6%	2.7%
United Kingdom	285	248	240	270	267	275	283	292	7	2.4%	0.3%
Germany	62	63	63	65	67	69	70	72	9	15.2%	2.0%
Other Europe	164	158	161	173	177	185	193	201	37	22.5%	2.9%
Total Europe	511	470	465	507	510	528	546	565	53	10.4%	1.4%
Pacific Islands	110	115	115	121	123	127	131	135	26	23.3%	3.0%
Rest of World	104	98	100	106	109	112	115	119	15	14.0%	1.9%
TOTAL WORLD	2,447	2,344	2,402	2,557	2,620	2,714	2,807	2,902	455	18.6%	2.5%
Annual Change	-0.3%	-4.2%	2.5%	6.5%	2.5%	3.6%	3.4%	3.4%			

Travel by New Zealand Residents

The recession continues to influence the travel patterns of New Zealanders. One of the main effects has been a temporary shift away from outbound travel towards domestic travel. This is expected to result in:

- A drop in the number of outbound trips in 2009-10 followed by a recovery in 2011-12 and a return to trend growth thereafter.
- A temporary increase in domestic travel activity in 2009-10 as domestic travel is substituted for outbound travel, followed by a gradual decline thereafter.

These outcomes are positive for the New Zealand tourism industry in the short-term.

Table 2: Forecasts of Travel by New Zealand Residents (millions)

Travel by	Actual				Forecasts				Growth 2009-15		
NZ Residents	2008	2009	2010	2011	2012	2013	2014	2015	Change	Total	Annual
Outbound Trips	1.97	1.89	1.87	1.96	2.06	2.12	2.17	2.23	0.26	13.3%	1.8%
Domestic Travel											
Day Trips	33.10	33.39	33.68	33.97	34.24	34.51	34.78	35.05	1.95	5.9%	0.8%
Overnight Trips	18.00	18.35	18.77	18.87	18.79	18.70	18.66	18.61	0.62	3.4%	0.5%
Visitor Nights	53.43	54.47	55.70	55.90	55.57	55.29	55.14	54.99	1.56	2.9%	0.4%
Av. Stay (nights)	2.97	2.97	2.97	2.96	2.96	2.96	2.96	2.95	-0.01	-0.5%	-0.1%

Introduction

Purpose

The Ministry of Tourism's annual forecasting programme has been in place since 1999. The purpose of the programme is to produce reliable forecasts of tourism activity in New Zealand that can be used with confidence to support medium and long-term planning and investment decisions in the tourism industry.

Scope

This report presents summary results of the national tourism forecasts within the full forecasting programme outlined below.

The programme produces forecasts of tourism activity at the national level and the regional (Regional Tourism Organisation) level. The national programme generates annual forecasts of international visitor arrivals, nights and expenditure; domestic trips, nights and expenditure; and short-term overseas trips by New Zealand residents.

The regional forecasts include international and domestic visits, nights and expenditure for each of New Zealand's 30 Regional Tourism Organisations (RTOs). The results are presented in separate reports for each RTO as well as in online pivot tables.

All of the forecasts in the programme are segmented by purpose of travel (holiday, visiting friends and family (VFR), business, education and other) and include activity generated by persons under 15 years of age.

Methodology and Assumptions

The forecasts are developed using statistical models and moderated using information provided by a panel of industry experts called the Delphi Group. The forecasts are demand-driven, and it is assumed that key supply variables will adjust accordingly. The forecasts incorporate the best information available as at June 2009.

The main assumptions affecting this year's forecasts relate to the performance of major economies. The economic downturn and recovery profiles used in the statistical modelling were sourced from the IMF and the Economist Intelligence Unit (EIU).

Delphi Ranges

An innovation in this year's programme is the use of individual forecasts submitted by Delphi members to calculate an expected range for the forecasts. The ranges, referred to as Delphi Ranges, provide a useful sense check for the forecasts as well as an insight into the levels of uncertainty associated with each market.

More Information and Update

The full range of outputs from the forecasting programme including national and regional reports and more detailed data in pivot tables are available from www.tourismresearch.govt.nz/forecasts.

An update of the forecasts is planned for December 2009.

Forecasting Context

The world has enjoyed a sustained period of economic prosperity over the past decade that has stimulated the growth of tourism activity internationally, including to New Zealand.

The global financial crisis and subsequent recession that took full effect from late 2008 has significantly changed the economic landscape, and this is having a direct impact on tourism. The recession, and more recently Influenza A (H1N1), are the latest in a string of negative influences on New Zealand tourism that include a persistently strong New Zealand dollar and a sharp rise in oil prices.

In this context, the forecasts presented seek to establish a reasonable set of expectations for the New Zealand tourism industry for the next seven years. The forecasts are significantly lower than those of previous years, reflecting the extraordinary nature of the current circumstances and the likelihood of a slow recovery in some markets.

Global Financial Crisis

The global financial crisis has shocked the international economic system and led to the worst recession in decades. While there is considerable uncertainty surrounding the length and depth of the downturn, some commentators are expecting a turnaround in most major economies in the next six to twelve months. There are different views on what the recovery profile might look like, and how it might differ across countries, but most commentators expect the recovery to be slow and cautious.

The global recession has had a major impact on international tourism activity. The UNWTO expects global visitor arrivals to fall by 4-6% in calendar year 2009 following a decline of 2.4% in the last quarter of 2008. Falls of this magnitude are highly unusual in the modern history of international tourism.

The recovery patterns for tourism are linked to the economic performance of our origin markets. Research indicates that of all the shocks experienced by New Zealand tourism in recent years, major recessionary events have the most persistent effects. Consequently, with the recession affecting all of our key markets simultaneously, the impact on demand for travel to New Zealand is likely to be more severe than with past adverse events. However, the effect will not be uniform across markets with some expected to recover much faster than others.

Influenza A (H1N1)

The outbreak of Influenza A (H1N1) has created additional uncertainty. It is unknown how the virus will progress, but the impact on travel to date has broad similarities to that caused by SARS in 2003.

For New Zealand, SARS affected Asian markets for a 3-5 month period, with a return to normal travel patterns thereafter. This pattern is now re-emerging, with Asian markets falling sharply in May and June. At this stage the impact of Influenza A (H1N1) is only expected to have a short-term impact on arrivals to New Zealand. However, there is clearly a downside risk if, for example, the virus has a heavy impact in the next northern hemisphere winter.

Forecasting Context

Market Stimulation

These strong negative influences are being partially offset by significant market stimulation achieved through heavy discounting by airlines and on-the-ground operators and additional investment in marketing. This has lessened the impact of the recession on travel volumes, but it has also reduced the profitability of some businesses to levels that may be commercially unsustainable in the long-term.

Consumer Planning and Booking

There has been a noticeable change in consumer behaviour in recent months. First, booking horizons have shortened considerably because travellers know they can secure good prices close to their travel dates. This has radically altered the forward booking profile for most tourism businesses, making it difficult to predict future demand levels.

Second, the volume of travel activity booked online has clearly increased in recent months as consumers reduce booking costs and take advantage of special deals. The recession appears to be accelerating the shift towards online distribution channels.

Long-term Risks

The ability to travel has been suppressed by the economic downturn but the underlying *desire* to travel still remains. There is little doubt that international travel activity will recover as the world economy recovers, but a return to pre-recession travel patterns is not guaranteed, i.e. the recession could lead to structural changes in international travel behaviour.

This is a risk for New Zealand, particularly in an environment where consumers are shifting away from long-haul travel towards short-haul and domestic travel. The most acute demonstration of this trend has been the change in Asian travel preferences towards intra-Asia driven by greater low-cost carrier activity in the region. This has come at the expense of travel to longer-haul destinations such as Australia and New Zealand. It is not yet known whether this rapid shift in travel preferences is limited to Asian markets, or whether it is part of a wider trend.

New Zealand's success in long-haul markets depends on much more than the quality of its tourism product – it depends on long-term business relationships, price competitiveness, brand awareness and air capacity – and if any of these are compromised during the downturn there is no guarantee of a return to business as usual after the recession.

Setting the 2009 Forecasts

The forecasting programme has balanced the various factors influencing travel behaviour to establish a set of expectations for tourism activity in New Zealand. It has done this based on the broad assumption that global economic recovery will begin in 2010; fuel prices will not rise substantially above existing levels; and critical air linkages and distribution channels remain intact.

Industry feedback received during the forecasting process suggests that some of New Zealand's traditional long-haul markets may take several years to recover from the current downturn. Furthermore, some markets, particularly Asian markets, may not reach the levels that were achieved a few years ago, within the seven year forecast period.

Forecasting Context

Tourism is now a major industry in most countries and the competitive environment is constantly evolving as new destinations emerge, marketing budgets increase, aviation technologies and business models evolve and leisure time becomes increasingly scarce. New Zealand has a range of unique and highly desirable tourism assets, but in a constantly evolving global market New Zealand's position must be frequently monitored and assessed to anticipate and respond to competitive threats.

It is also important to understand that markets will naturally ebb and flow as the competitive environment changes, and that resilience is built on the ability to respond to these changes ahead of time. This will allow New Zealand to continue to secure the considerable benefits delivered by the tourism industry.

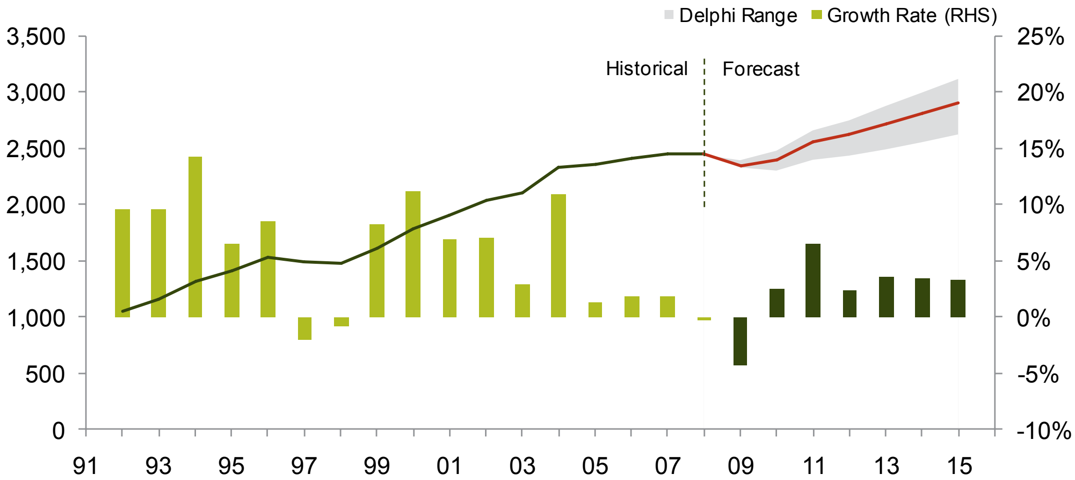
The forecasts have also been shaped by New Zealand's past resilience to global shocks and its ability to quickly fill gaps left by declining markets. In an economy that depends so critically on tourism, it is difficult to imagine a scenario in which demand for tourism in New Zealand does not continue to grow over time.

Total World

The long-term outlook for visitor arrivals to New Zealand is positive despite the negative short-term influences. Arrivals are expected to revert to the long-term growth path in 2012 following a strong recovery in 2011.

The forecast sits near the middle of the Delphi Range (refer to explanation on page 4), indicating a balance of upside and downside risk over the next seven years. While the forecasting process has revealed considerable uncertainty surrounding several major inbound markets, the Delphi Range on the national forecasts is relatively narrow. This indicates a general consensus within the industry that visitor arrivals will eventually revert to the long-term growth path, just as they have after every major shock experienced in the past.

Figure 1: Visitor Arrivals to New Zealand (000s)



Drivers of the Forecasts

- Continued strength in the Australian market, particularly in the short-term.
- Strong recoveries in most long-haul markets in 2011 driven by a return to economic growth and the Rugby World Cup.
- Growth in emerging markets to fill the gaps left by contracting markets such as Japan and South Korea.
- The resilience of the New Zealand tourism industry which has always recovered strongly from adverse events. A recent study of past economic shocks on tourism in New Zealand (www.tourismresearch.govt.nz/shocks) confirmed that in the absence of structural changes, visitor arrivals always rebound strongly once economic growth resumes.

Risks to the Forecasts

- The global recession persists beyond the middle of 2010.
- Structural changes occur in key markets during the economic downturn, in which case there is no guarantee of a return to business as usual. Examples include changes in long-term business relationships, price competitiveness, brand awareness and air capacity.
- A downturn in Australian arrivals. This would reduce the overall growth forecast, particularly in the short-term.

Total World

Visitor arrivals are forecast to increase by 18.6% across the seven year forecast period, despite a record drop of 4.2% in 2009. This represents a total increase over the forecast period of 455,000 arrivals and an average increase of 2.5% per annum.

Table 3: Forecasts of Total Visitor Arrivals and Nights

Calendar Year	Arrivals 000s	Arrivals Growth	Nights 000s	Nights Growth
2008 actual	2,447	-0.3%	48,729	3.3%
2009	2,344	-4.2%	45,320	-7.0%
2010	2,402	2.5%	46,247	2.0%
2011	2,557	6.5%	49,309	6.6%
2012	2,620	2.5%	50,441	2.3%
2013	2,714	3.6%	52,178	3.4%
2014	2,807	3.4%	53,931	3.4%
2015	2,902	3.4%	55,761	3.4%
Growth 2009-15	455	18.6%	7,031	14.4%
Annual Average	65	2.5%	1,004	1.9%

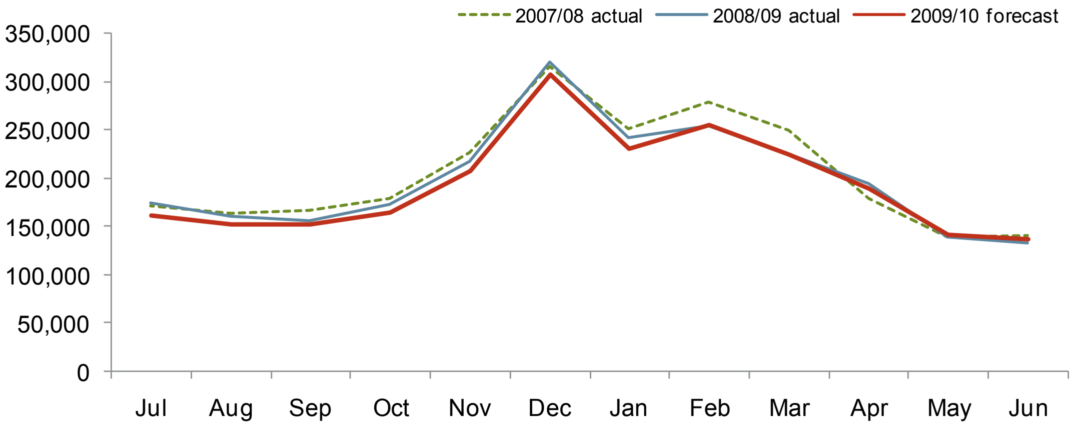
Short-term Outlook

Visitor arrivals are expected to retain a largely normal seasonal pattern over the next twelve months with lower visitor numbers through until autumn 2010.

The initial period will be affected by the sharp decline in Asian arrivals in response to Influenza A (H1N1). Over summer, demand will be lower than the last two years as long-haul leisure travellers from the UK, US and Asia continue to be affected by the economic downturn. The Australian market will be the main area of strength over this period.

In aggregate, visitor arrivals over the coming summer period (Nov-Mar) are expected to be down around 3% on last season with wide variation across markets and segments.

Figure 2: Monthly Visitor Arrivals to New Zealand

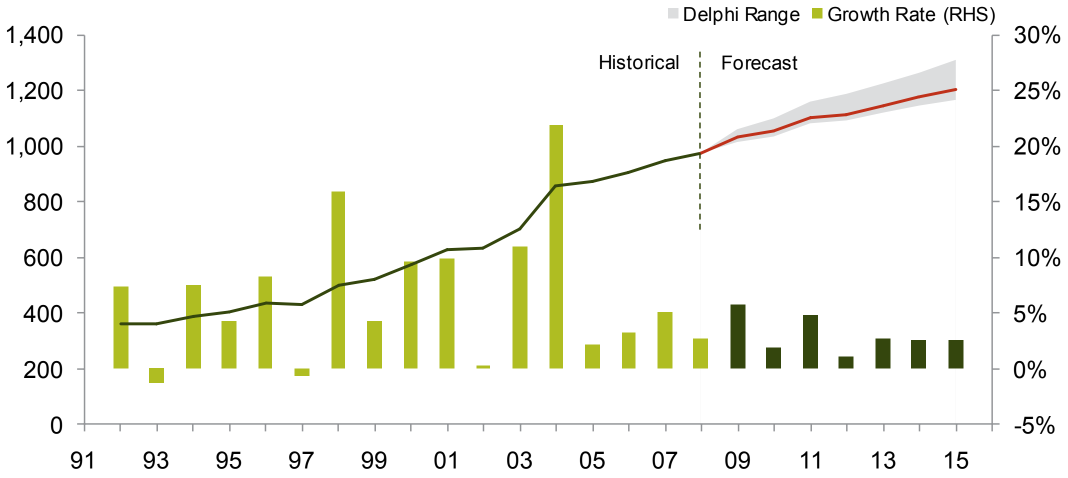


Australia

The outlook for the next seven years is positive for the Australian market. The highest growth rates are expected in the short-term as Australians respond to the economic downturn by reducing long-haul travel in favour of short-haul travel. The eventual return to sustainable trans-Tasman airfares and normal long-haul travel patterns is likely to result in lower growth rates in the long-term.

The growth forecast for Australia sits near the bottom of the Delphi Range in the graph below. The Delphi members were optimistic about the prospects for the Australian market but the forecasts factor in the likelihood of a gradual shift back towards long-haul travel as the economy improves.

Figure 3: Australian Visitor Arrivals to New Zealand (000s)



Drivers of the Forecasts

- The past resilience of the Australian market to economic shocks. For example, during the last major recession in Australia in 1991-92, visitor arrivals to New Zealand grew by 1.9% per annum.
- Good long-term prospects for the Australian economy due to its significant natural resource base and relative proximity to fast growing Asian markets. This strength will continue to drive Australian outbound travel in the future, including to New Zealand.
- Strong friends and family linkages between Australia and New Zealand which will continue to drive growth in the visiting friends and relatives segment. This segment is relatively insensitive to changes in income, particularly when airfares are low.
- Sustained price competition on trans-Tasman routes which will continue to stimulate demand for travel to New Zealand.
- A shift towards short-haul travel in the next 1-2 years as the economy deteriorates, followed by a gradual shift back to long-haul travel as the Australian economy recovers.

Risks to the Forecasts

- A reduction in airline competition on trans-Tasman routes which would result in higher airfares. Low airfares have been a key driver of growth in recent years.
- A prolonged downturn in the resources sector which would reduce long-term economic growth and dampen demand for international travel.

Australia

Visitor arrivals from Australia are forecast to reach 1.03 million in calendar year 2009, increasing further to 1.21 million by 2015. This represents a total increase over the forecast period of 23.6% (230,000 arrivals) and an average growth rate of 3.1% per annum.

Table 4: Forecasts of Australian Visitor Arrivals and Nights

Calendar Year	Arrivals 000s	Arrivals Growth	Nights 000s	Nights Growth
2008 actual	976	2.7%	10,463	2.8%
2009	1,032	5.8%	10,650	1.8%
2010	1,053	2.0%	10,770	1.1%
2011	1,103	4.8%	11,201	4.0%
2012	1,115	1.1%	11,258	0.5%
2013	1,146	2.7%	11,511	2.2%
2014	1,176	2.6%	11,765	2.2%
2015	1,206	2.6%	12,029	2.2%
Growth 2009-15	230	23.6%	1,567	15.0%
Annual Average	33	3.1%	224	2.0%

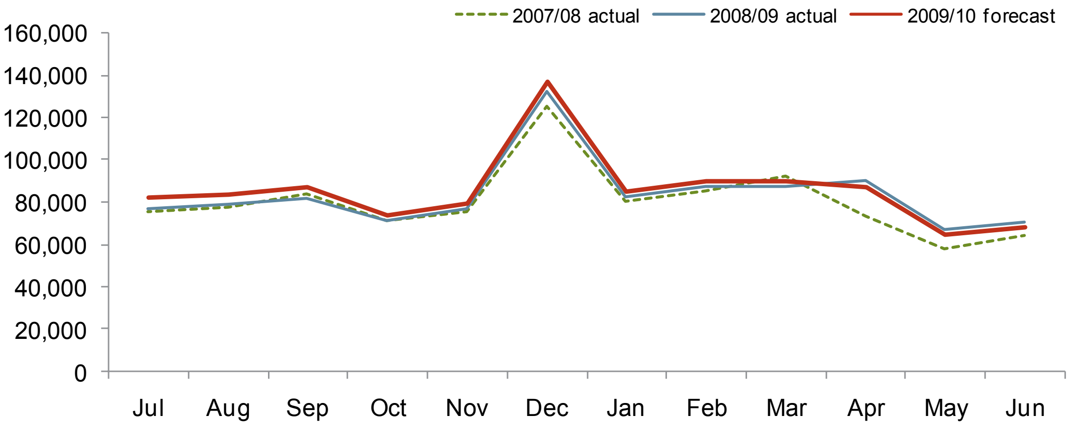
Short-term Outlook

Australian arrivals are expected to retain their normal seasonal pattern over the next twelve months, but at a higher level than previous years.

There are a number of positive factors driving the Australian market at present – a clear shift in Australian preferences from long-haul to short-haul travel, increased marketing effort by the New Zealand tourism industry in Australia and a highly competitive trans-Tasman aviation market. Strong ski bookings are in place which will support growth in the winter and early spring periods.

Australian visitor arrivals over the coming summer season (Nov-Mar) are expected to be up around 3% on last season.

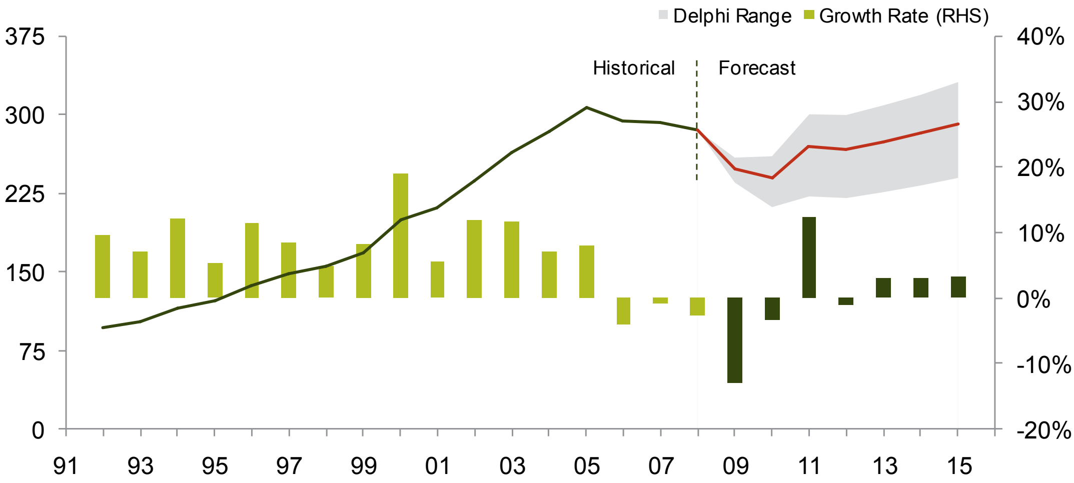
Figure 4: Monthly Visitor Arrivals from Australia



United Kingdom

The outlook for the UK market is dominated by the sharp downturn in the next two years which reduces arrivals to levels last seen in 2002. The strong recovery in 2011 is driven by a return to economic growth and a large influx of Rugby World Cup supporters. Growth is expected to be relatively gradual thereafter, although the Delphi Range on the graph below highlights the considerable uncertainty associated with the long-term prospects for this market.

Figure 5: UK Visitor Arrivals to New Zealand (000s)



Drivers of the Forecasts

- A return to the pre-2000 growth trajectory. The growth between 2000 and 2005 was driven by an exceptional set of circumstances including a massive increase in household wealth and significant media exposure, for example through the *Lord of the Rings* trilogy. This combination of circumstances is not likely to be repeated during the forecasting period.
- A post-recession catch-up period as suppressed demand is satisfied. In the two years following the UK recession in 1990-91 arrivals to New Zealand increased by 5.8% per annum with all of the main travel segments experiencing robust growth. Travel is often deferred rather than cancelled during periods of economic downturn, resulting in a sharp recovery once the downturn has passed.
- Strong friends and family linkages which will continue to drive long-term growth in the visiting friends and relatives segment. This segment accounts for more than 40% of the UK market and therefore has a significant impact on overall visitor numbers.
- The Rugby World Cup in 2011 will generate a one-off increase in visitor activity but it will also raise awareness of New Zealand as a destination. This will help to drive the post-2011 recovery in visitor numbers.

Risks to the Forecasts

- A slow recovery in the UK economy which would continue to suppress demand for travel to New Zealand.
- A strong negative consumer response to the scheduled increases in the Air Passenger Duty (APD) imposed on UK outbound travel. For a trip to New Zealand the APD, essentially a departure tax, will increase from £40 to £55 on 1 November 2009 and to £80 on 1 November 2010.

United Kingdom

Visitor arrivals are still expected to grow by 2.4% over the forecast period to reach 292,000 by the end of 2015, despite a record drop of 12.9% in 2009. This represents a total increase over the forecast period of 7,000 arrivals and an average growth rate of 0.3% per annum.

Table 5: Forecasts of UK Visitor Arrivals and Nights

Calendar Year	Arrivals 000s	Arrivals Growth	Nights 000s	Nights Growth
2008 actual	285	-2.6%	8,197	-1.3%
2009	248	-12.9%	7,007	-14.5%
2010	240	-3.4%	6,822	-2.7%
2011	270	12.4%	7,690	12.7%
2012	267	-1.1%	7,599	-1.2%
2013	275	3.0%	7,821	2.9%
2014	283	3.0%	8,055	3.0%
2015	292	3.2%	8,319	3.3%
Growth 2009-15	7	2.4%	122	1.5%
Annual Average	1	0.3%	17	0.2%

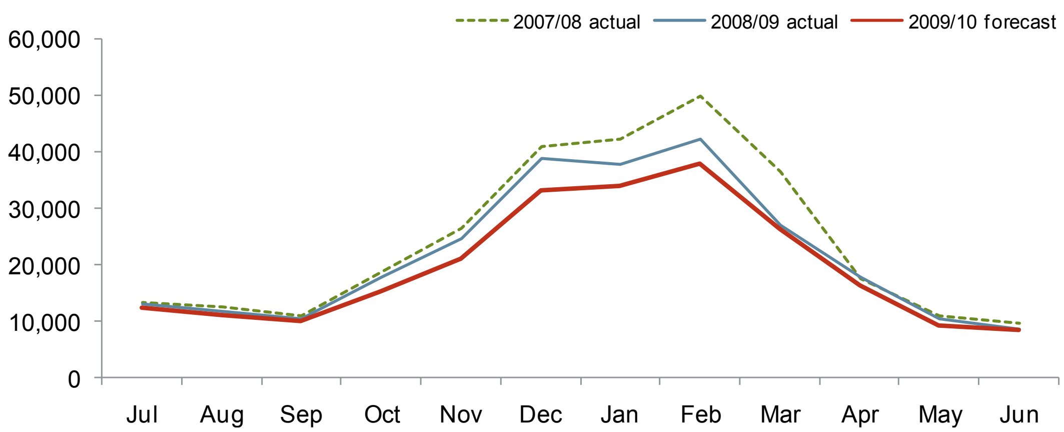
Short-term Outlook

UK arrivals are expected to fall over the next 12 months. The biggest impact is expected during the summer period driven by a large drop in the important holiday leisure segment relative to previous years.

The economic downturn is being sharply felt in the UK with the IMF expecting its economy to contract by at least 3.5% in 2009 - the largest annual decline in 50 years. This is affecting all the major inbound segments from the UK, with the business and tour group segments experiencing the largest declines. Even the resilient visiting friends and relatives market has fallen despite the availability of cheap airfares to New Zealand.

UK visitor arrivals over the coming summer season (Nov-Mar) are expected to be down around 11% on last season.

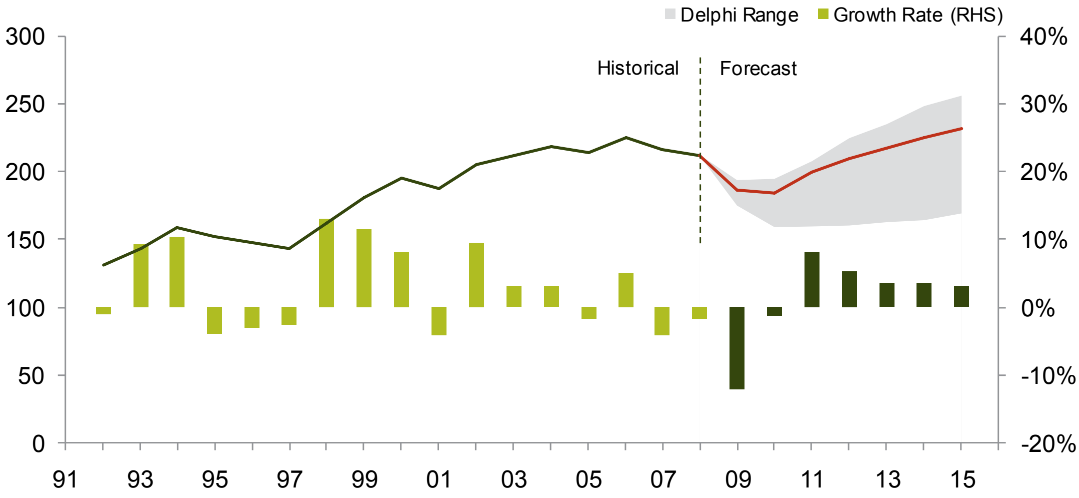
Figure 6: Monthly Visitor Arrivals from the UK



United States

A return to trend growth is forecast for the US market in 2011 as economic growth is restored and businesses and households begin to satisfy their suppressed travel demands. The underlying growth in the US market over the past two decades has been punctuated by several rises and falls driven by changes in market dynamics as opposed to economic drivers. This volatility, combined with concerns about the long-term prospects for the US economy, introduces significant uncertainty into the forecasts as reflected in the Delphi Range on the graph below. Overall the Delphi group sees more downside risk for the US market.

Figure 7: US Visitor Arrivals to New Zealand (000s)



Drivers of the Forecasts

- A recovery in the US economy beginning in 2010, with a return to long-term economic growth rates in 2011. The resulting lift in business and consumer confidence will re-stimulate the market for international travel and generate a return to pre-recession travel patterns, including to New Zealand.
- A rebound in the cruise ship market in 2010-11 as cruise operators deploy additional ships to the region. Cruise passengers account for up to 20% of US arrivals a year; hence an increase in cruise passenger numbers will have a material impact on total US arrivals.
- A large increase in airline seat capacity between the US and Australia due to the recent entry of both the V Australia and Delta airlines. The increase in competition should lead to a reduction in US airfares to Australia and easier access to seat allocations during peak periods. This has the potential to increase US dual-destination travel via Australia.

Risks to the Forecasts

- A slower than expected recovery in the US economy would delay the rebound in US arrivals to New Zealand.
- Structural changes in wholesale distribution channels would inhibit the recovery process. This occurred in the late 1980s following the sharemarket crash, delaying the recovery in US arrivals by several years.
- The increase in direct air capacity between the US and Australia may put New Zealand at a competitive disadvantage, particularly if airlines such as Delta have no commercial incentive to provide competitive dual-destination packages.

United States

Visitor arrivals are expected to grow by 9.2% over the forecast period to reach 232,000 by the end of 2015, despite a drop of 12.2% in 2009. This represents a total increase of 20,000 arrivals over the forecast period and an average growth rate of 1.3% per annum.

Table 6: Forecasts of US Visitor Arrivals and Nights

Calendar Year	Arrivals 000s	Arrivals Growth	Nights 000s	Nights Growth
2008 actual	212	-1.7%	3,570	-4.4%
2009	186	-12.2%	3,133	-12.2%
2010	184	-1.2%	3,146	0.4%
2011	199	8.1%	3,444	9.5%
2012	210	5.3%	3,632	5.5%
2013	217	3.6%	3,776	4.0%
2014	225	3.5%	3,920	3.8%
2015	232	3.2%	4,060	3.6%
Growth 2009-15	20	9.2%	490	13.7%
Annual Average	3	1.3%	70	1.9%

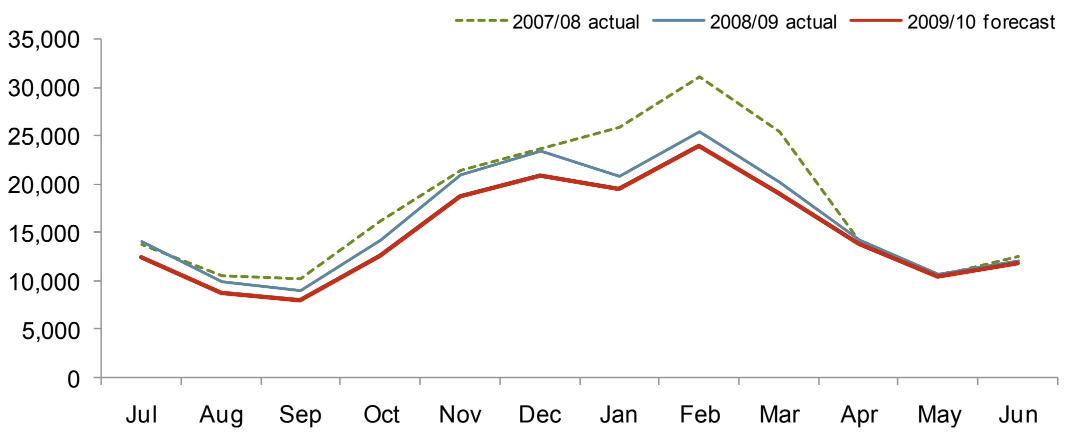
Short-term Outlook

US arrivals are expected to be consistently lower during the next twelve months relative to past years, with the biggest impact expected during the summer period.

The tour and group segment is likely to experience the largest downturn and the US cruise segment, which accounted for around 31,000 arrivals during the 2008-09 season, is also expected to be down. There is more optimism around the independent traveller segment, particularly with some of the airfares and ground product discounts being offered at present.

US visitor arrivals over the coming summer season (Nov-Mar) are expected to be down around 8% on last season.

Figure 8: Monthly Visitor Arrivals from the US

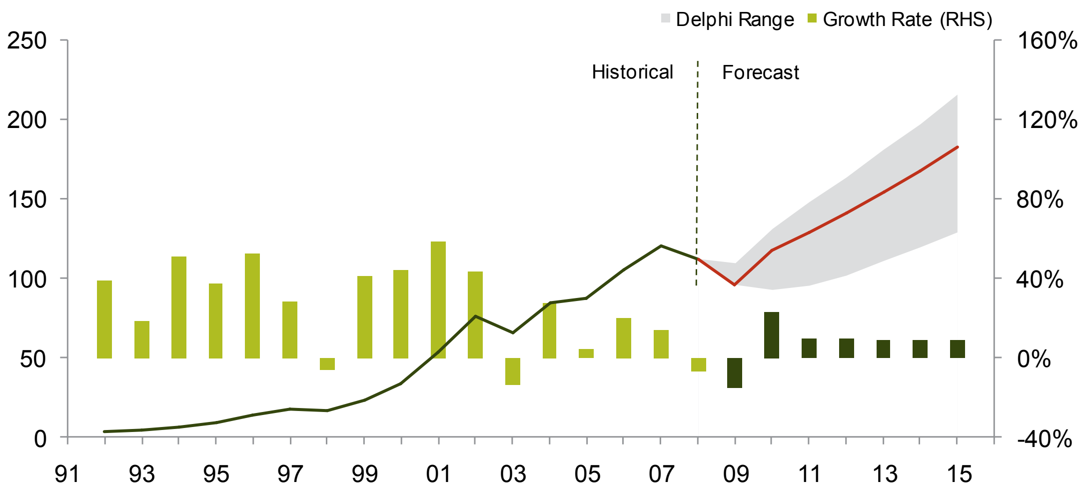


China

Growth in visitor arrivals from China is forecast to revert to growth from 2011 onwards. The expansion in the number of countries with Approved Destination Status[1] should not affect growth potential in the long-term due to the steadily increasing numbers of Chinese that can afford to travel. As always, the main long-term challenge for New Zealand is extracting sufficient value from Chinese visitors.

The Delphi Range on the graph below indicates a wide range of possibilities for the Chinese market. This reflects the enormous potential of the Chinese market, and also its vulnerability as a relatively immature market.

Figure 9: Chinese Visitor Arrivals to New Zealand (000s)



Drivers of the Forecasts

- Chinese demand for international travel will continue to be driven by high rates of economic growth. New Zealand is a desirable destination for Chinese travellers and can expect to maintain its share of the rapidly expanding travel market.
- The expanding Chinese population in New Zealand will continue to drive growth in the visiting friends and relatives segment. This segment has been resilient to past shocks and will be a stable long-term driver of growth.
- The provision of direct Air New Zealand services to Shanghai and Beijing provides a sound platform for further growth in the Chinese market.

Risks to the Forecasts

- Reputation risks are the main long-term threat to New Zealand tourism, particularly within the tour and group segment. Some travellers within organised tours, which are difficult to regulate, have complained about service levels and overcharging. If such behaviours persist, New Zealand could lose favour as a destination for Chinese travellers, particularly as access to other markets increases.
- The loss of direct air capacity between China and New Zealand would undermine the growth potential of this market.

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1 Approved Destination Status (ADS) is a bilateral agreement with the Chinese government that allows destination countries to open a tourist office in China and market to tourists and organised group leisure tours of five or more people.

China

Visitor arrivals are expected to grow by 62.6% over the forecast period to reach 183,000 by the end of 2015, despite a drop of 15% in 2009. This represents a total increase of 70,000 arrivals over the forecast period and an average growth rate of 7.2% per annum. China is expected to be New Zealand's fastest growing market in percentage terms over the next seven years.

Table 7: Forecasts of Chinese Visitor Arrivals and Nights

Calendar Year	Arrivals 000s	Arrivals Growth	Nights 000s	Nights Growth
2008 actual	112	-7.0%	1,699	3.2%
2009	96	-15.0%	1,483	-12.7%
2010	118	23.2%	1,725	16.3%
2011	129	9.6%	1,819	5.5%
2012	141	9.6%	1,921	5.6%
2013	154	9.2%	2,025	5.4%
2014	168	8.8%	2,131	5.3%
2015	183	8.7%	2,246	5.4%
Growth 2009-15	70	62.6%	548	32.2%
Annual Average	10	7.2%	78	4.1%

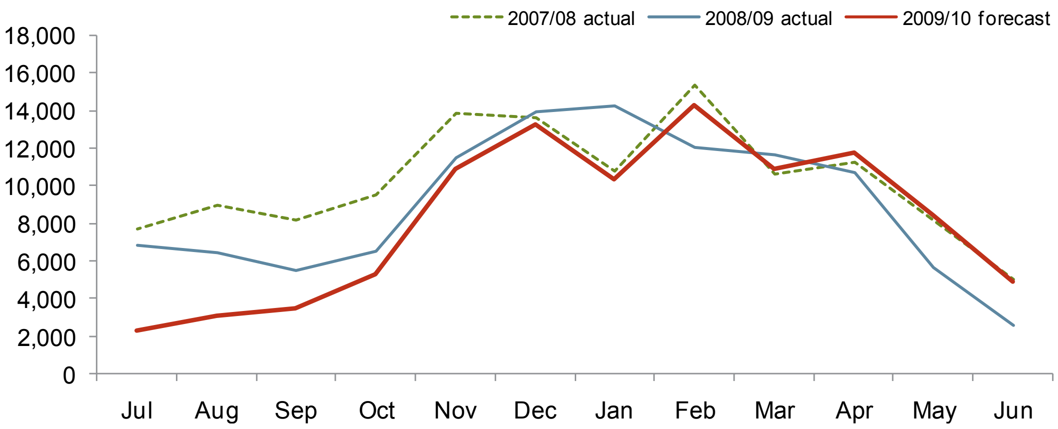
Short-term Outlook

Arrivals from China are expected be soft over the next six months before returning to the normal seasonal pattern thereafter.

China is a market that reacts sharply to adverse factors, with both the economic downturn and Influenza A (H1N1) being important influences at present. Arrivals are expected to fall significantly in the first half of the 2009-10 year due to the impact of the pandemic. The Chinese market is expected to begin growing again towards the end of the 2009-10 year as these negative influences weaken.

Chinese visitor arrivals over the coming summer season (Nov-Mar) are expected to be down around 6% on last season.

Figure 10: Monthly Visitor Arrivals from China

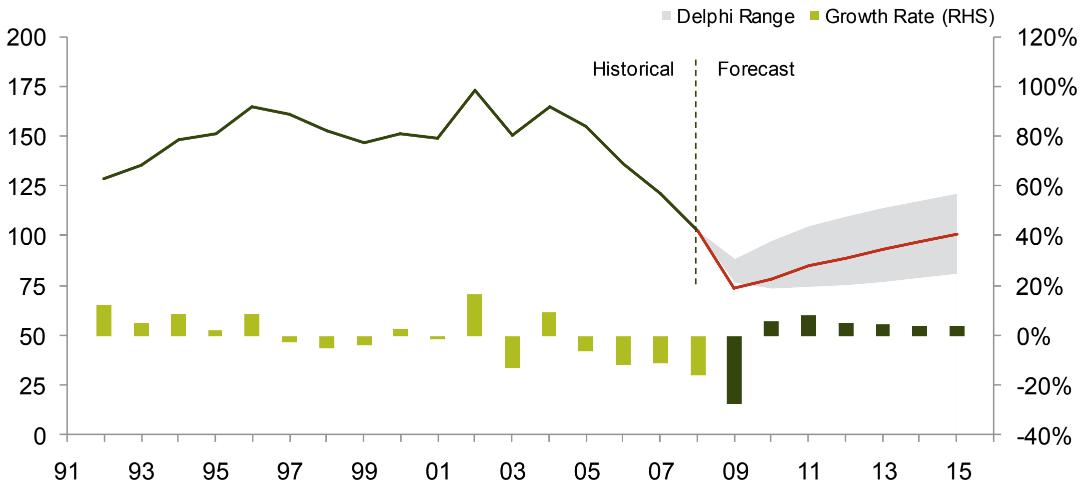


Japan

The Japanese market is not expected to fully recover from the sharp drop in 2009. The spread in the Delphi Range reflects the uncertainty surrounding the Japanese market and indicates that a return to the levels observed in the 1990s is highly unlikely.

The long-term forecast sits near the middle of the Delphi Range indicating a reasonable balance of upside and downside risk. The forecast for 2009 sits below the Delphi Range due to the expected impact of Influenza A (H1N1) on short-term visitor numbers.

Figure 11: Japanese Visitor Arrivals to New Zealand (000s)



Drivers of the Forecasts

- The long-term forecast shows a gradual recovery back to pre-recession levels. The early stages of this recovery are driven by the rebound from Influenza A (H1N1). A similar recovery was observed following SARS in 2003.
- A declining and ageing population will cause a gradual contraction in the Japanese outbound travel market. The only way New Zealand could generate significant growth in this market is by capturing a larger market share. This is unlikely based on recent trends. The forecasts represent a gradual recovery to 2008 market share levels, which were already significantly down on previous years.
- The shift towards short-haul travel within Asia is likely to persist, resulting in a static or shrinking long-haul outbound market. This limits the scope for growth.
- Some of the education charters that were cancelled in 2008 and 2009 will be re-established from 2010 onwards.

Risks to the Forecasts

- Another prolonged recession could lead to a further contraction in demand for long-haul travel.
- Further reductions in airline capacity are a risk to this market.

Japan

Visitor arrivals from Japan are expected to fall to 74,000 in 2009 before slowly recovering to 101,000 by 2015. This represents a total decline over the forecast period of 1.6% (2,000 arrivals) and an average decrease of 0.2% per annum.

Table 8: Forecasts of Japanese Visitor Arrivals and Nights

Calendar Year	Arrivals 000s	Arrivals Growth	Nights 000s	Nights Growth
2008 actual	102	-15.8%	1,578	-7.2%
2009	74	-27.7%	1,160	-26.5%
2010	78	5.7%	1,217	4.9%
2011	85	8.3%	1,319	8.4%
2012	89	5.0%	1,387	5.1%
2013	93	4.8%	1,454	4.8%
2014	97	4.0%	1,517	4.3%
2015	101	3.9%	1,581	4.2%
Growth 2009-15	-2	-1.6%	3	0.2%
Annual Average	0	-0.2%	0	0.0%

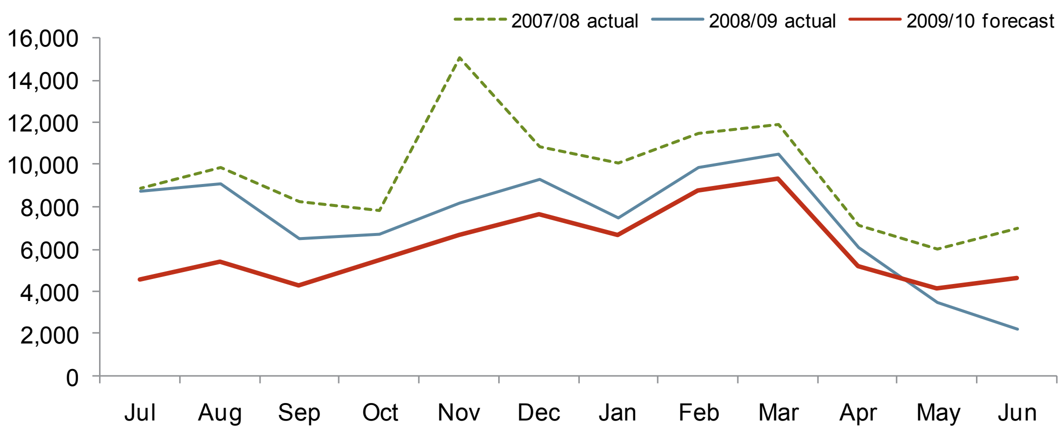
Short-term Outlook

Japanese arrivals are expected to be significantly lower than in previous years across the next twelve months.

The Japanese economy is expected to contract by almost 8% in 2009 and the IMF is predicting a slow recovery which greatly reduces the probability of a quick rebound in arrivals to New Zealand. In addition, Japanese travellers (including school groups) have been quick to reduce travel as Influenza A (H1N1) has emerged, and this effect will persist over the first half of the 2009-10 year. The outlook for the next year is therefore pessimistic.

Japanese visitor arrivals over the coming summer season (Nov-Mar) are expected to be down around 13% on last season.

Figure 12: Monthly Visitor Arrivals from Japan

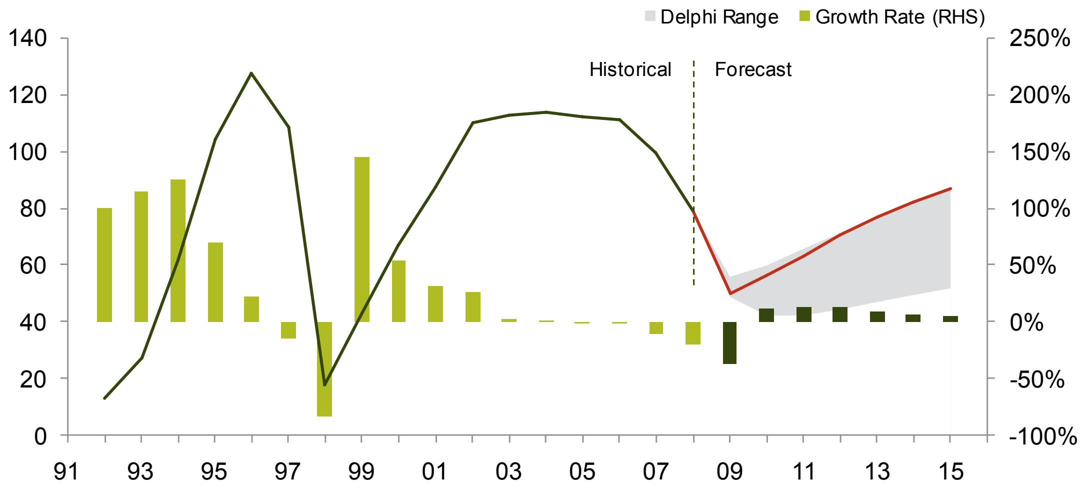


South Korea

The main lesson from the Asian Financial Crisis in 1997 is that South Korean arrivals will fall rapidly in response to a major economic shock and will recover rapidly once the shock has passed. This profile is reflected in the forecast for South Korea although arrivals are unlikely to return to levels observed a few years ago because of the reduction in the number of shopping-subsidised tours.[2]

The growth forecast for the South Korean market sits near the top of the Delphi Range. Some Delphi members held a considerably less optimistic view for this market. The forecasts, however, reflect the strong recovery experienced by South Korea following the 1997-98 Asian Financial Crisis and the likelihood that such a recovery profile could occur following the current recession.

Figure 13: South Korean Visitor Arrivals to New Zealand (000s)



Drivers of the Forecasts

- Strong long-term growth in the South Korean economy – the IMF predicts GDP growth of around 5% per annum from 2011 onwards. This will drive long-term demand for outbound travel, including to New Zealand.
- Visitor arrivals will not reach the levels achieved previously because of the changes in shopping commission arrangements, which have caused some operators to leave the market and reduced the number of shopping-subsidised tours. The shift towards short-haul travel at the expense of travel to long-haul destinations like New Zealand also imposes a constraint on long-term growth.
- The short-term outlook is heavily influenced by the global recession and the effects of Influenza A (H1N1). History suggests that the South Korean market will rebound strongly once these effects have passed.

Risks to the Forecasts

- The negative impact of the change in shopping commission arrangements had not been fully realised prior to the recession; hence the number of arrivals could eventually settle at a lower level than expected.

2 These arrangements allowed tour operators to offer heavily discounted travel packages to New Zealand, subsidised by commissions earned on retail purchases.

South Korea

Visitor arrivals are expected to grow by 9.5% over the forecast period to reach 87,000 by the end of 2015, despite a drop of 36.7% in 2009. This represents a total increase of 8,000 arrivals over the forecast period and average growth of 1.3% per annum.

Table 9: Forecasts of South Korean Visitor Arrivals and Nights

Calendar Year	Arrivals 000s	Arrivals Growth	Nights 000s	Nights Growth
2008 actual	79	-20.5%	1,717	-1.8%
2009	50	-36.7%	1,315	-23.4%
2010	56	12.0%	1,391	5.8%
2011	63	12.3%	1,474	6.0%
2012	71	12.2%	1,594	8.1%
2013	77	8.9%	1,690	6.0%
2014	82	6.6%	1,777	5.2%
2015	87	5.5%	1,858	4.5%
Growth 2009-15	8	9.5%	141	8.2%
Annual Average	1	1.3%	20	1.1%

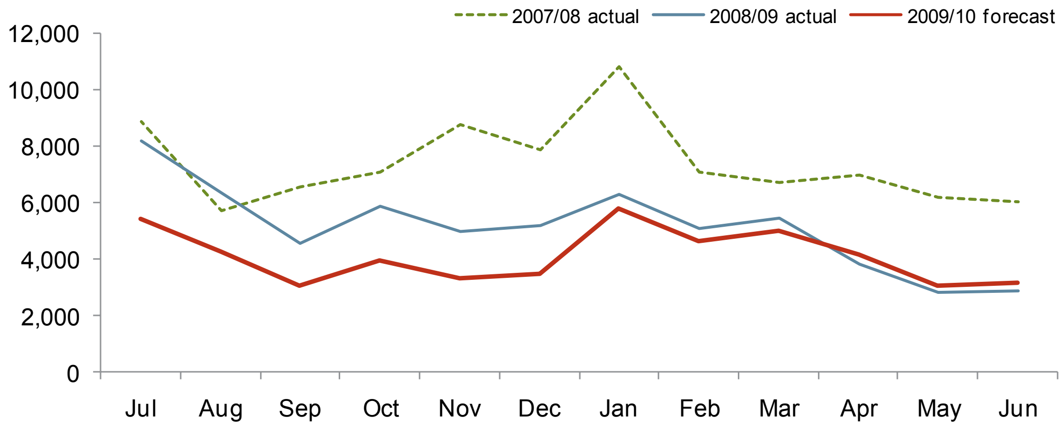
Short-term Outlook

South Korean arrivals are expected to be significantly lower over the next twelve months, especially in the second half of 2009.

In addition to the economic downturn and Influenza A (H1N1), South Korea has also been affected by changes to shopping commission arrangements which were imposed in New Zealand and Australia in mid-2008. The pattern of decline in this market is similar to the pattern observed following the Asian Financial Crisis in 1997-98. The sharp decline in 1998 was followed by a rapid (but partial) recovery.

South Korean visitor arrivals over the coming summer season (Nov-Mar) are expected to be down around 17% on last season.

Figure 14: Monthly Visitor Arrivals from South Korea

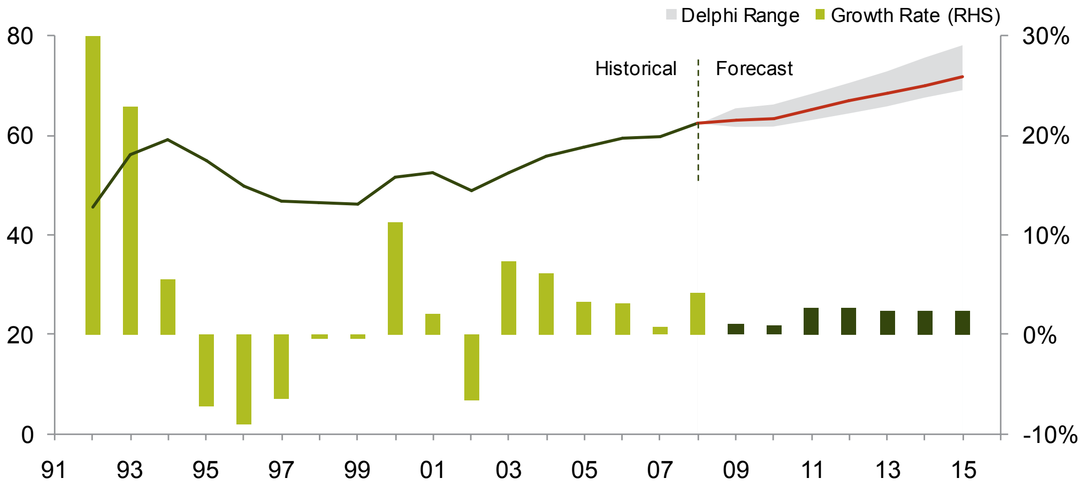


Germany

The outlook for the German market is a continuation of the steady growth observed over the past decade.

The Delphi Range for Germany is quite narrow which indicates a low level of perceived risk, particularly when compared against other markets. The forecast sits towards the bottom of this range which indicates some upside potential.

Figure 15: German Visitor Arrivals to New Zealand (000s)



Drivers of the Forecasts

- Proven resilience during recessionary periods. The German recession in 2004 had no noticeable impact on arrivals to New Zealand and there has been no negative response to the current downturn as yet.
- The types of travellers that New Zealand attracts – mainly young backpackers – have a lower likelihood of being affected by economic cycles. This results in more stable and predictable demand patterns.
- Germans have a high propensity to travel and are a good match for the experiences that New Zealand offers. At this stage there are no strong reasons for the German market to deviate from its current growth path.

Risks to the Forecasts

- Competition from emerging destinations such as South America, India, China and Africa.
- A prolonged economic downturn which would eventually dampen demand for international travel.

Germany

Visitor arrivals from Germany are forecast to reach 72,000 by 2015. This represents a total increase over the forecast period of 15.2% (9,000 arrivals) and an average increase of 2% per annum.

Table 10: Forecasts of German Visitor Arrivals and Nights

Calendar Year	Arrivals 000s	Arrivals Growth	Nights 000s	Nights Growth
2008 actual	62	4.2%	2,647	3.2%
2009	63	1.1%	2,669	0.8%
2010	63	0.8%	2,728	2.2%
2011	65	2.6%	2,815	3.2%
2012	67	2.6%	2,901	3.1%
2013	69	2.4%	2,985	2.9%
2014	70	2.4%	3,070	2.8%
2015	72	2.4%	3,156	2.8%
Growth 2009-15	9	15.2%	509	19.2%
Annual Average	1	2.0%	73	2.5%

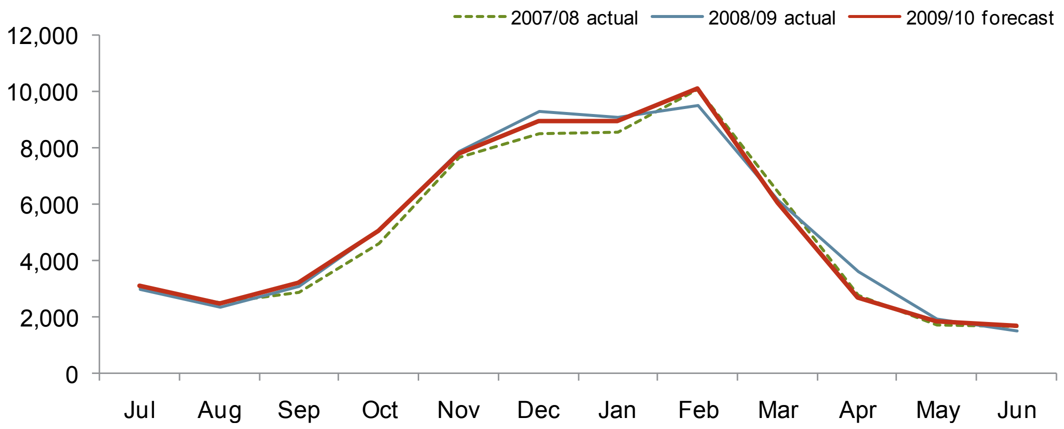
Short-term Outlook

German visitor arrivals are expected to closely match previous years over the next twelve months, both in terms of volume and the seasonal pattern.

German arrivals have increased by 1.7% in the past six months despite expectations that the German economy will contract by 6% in 2009. This resilience can be attributed to the travel segments that New Zealand serves – primarily young independent travellers who are taking advantage of the cheap airfares and heavily discounted on-the-ground product caused by the economic downturn.

German visitor arrivals over the coming summer season (Nov-Mar) are expected to remain unchanged relative to last season.

Figure 16: Monthly Visitor Arrivals from Germany

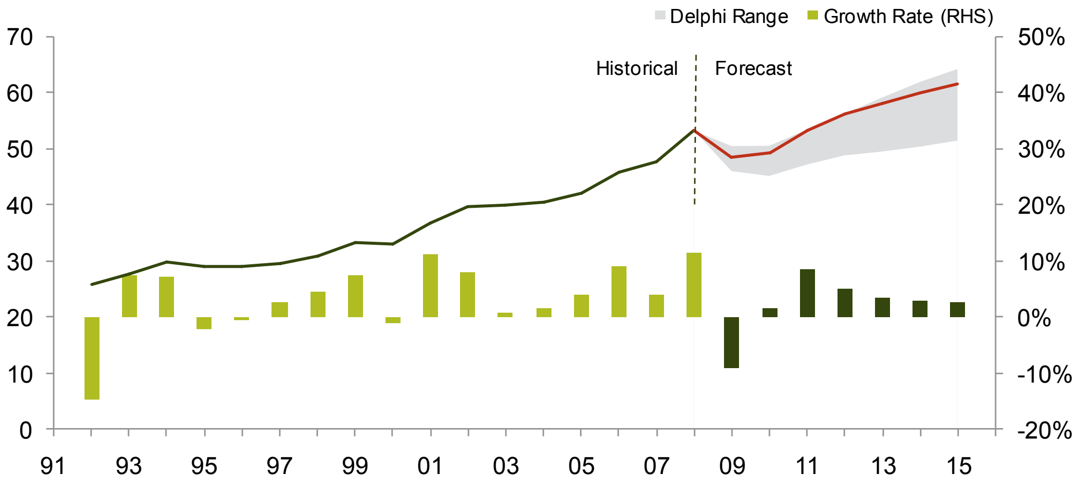


Canada

Canadian arrivals are forecast to return to the long-term growth path in 2011. Air New Zealand's Vancouver service increased Canadian arrivals by 11% in 2008, signalling the growth potential in this market and its responsiveness to stimulation.

The Delphi Range indicates a reasonable level of uncertainty in the latter stages of the forecast period. The forecast sits near the top of this range based on past performance and Air New Zealand's commercial interest in growing this market further.

Figure 17: Canadian Visitor Arrivals to New Zealand (000s)



Drivers of the Forecasts

- Good long-term prospects for the Canadian economy due to its significant resource base and easy access to the US market. This strength will continue to drive Canadian outbound travel in the future, including to New Zealand.
- A rebound in the cruise ship market in 2010-11 as cruise operators deploy additional ships to the region. Cruise passengers account for up to 15% of Canadian arrivals a year; hence an increase in cruise passenger numbers will have a material impact on total Canadian arrivals.
- Air New Zealand's direct service to Vancouver provides a stable platform and strong commercial incentive for further growth in the Canadian market. The demand stimulation generated by Air New Zealand's entry into the Canadian market in 2008 can be seen on the graph above.
- Strong friends and family linkages which will continue to drive long-term growth in the visiting friends and relatives segment. This segment accounts for almost 30% of the Canadian market and therefore has a significant impact on overall visitor numbers.

Risks to the Forecasts

- A slower than expected economic recovery would delay the rebound in Canadian arrivals to New Zealand.

Canada

Visitor arrivals are expected to grow by 15.5% over the forecast period to reach 62,000 by the end of 2015, despite a drop of 9% in 2009. This represents a total increase of 8,000 arrivals over the forecast and average growth of 2.1% per annum.

Table 11: Forecasts of Canadian Visitor Arrivals and Nights

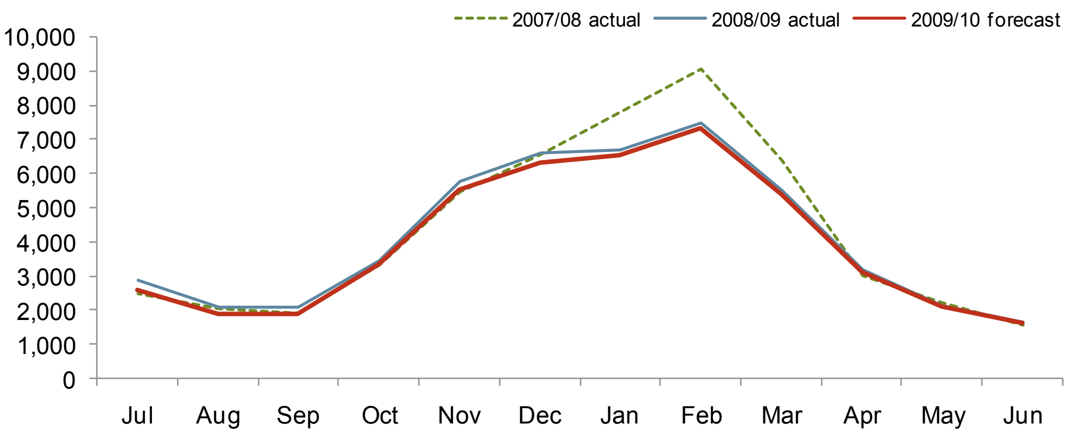
Calendar Year	Arrivals 000s	Arrivals Growth	Nights 000s	Nights Growth
2008 actual	53	11.5%	1,255	10.7%
2009	48	-9.0%	1,150	-8.3%
2010	49	1.6%	1,195	3.9%
2011	53	8.5%	1,301	8.8%
2012	56	5.1%	1,373	5.6%
2013	58	3.5%	1,430	4.1%
2014	60	3.0%	1,482	3.6%
2015	62	2.8%	1,532	3.4%
Growth 2009-15	8	15.5%	277	22.1%
Annual Average	1	2.1%	40	2.9%

Short-term Outlook

Canadian visitor arrivals are expected to closely match last year's profile over the next twelve months, both in terms of volume and the seasonal pattern. However, the current summer profile sits well below the pre-recession profile.

Canadian visitor arrivals over the coming summer season (Nov-Mar) are expected to be down around 3% on last season.

Figure 18: Monthly Visitor Arrivals from Canada



Travel by New Zealand Residents

Travel by New Zealand residents encompasses both outbound travel (overseas trips) and domestic travel (trips within New Zealand). When economic conditions are favourable New Zealanders tend to increase their levels of outbound travel, sometimes at the expense of domestic travel. The economic downturn has caused a temporary reversal in this trend which has generated an upturn in the domestic tourism market after several years of steady decline.

Outbound Travel

Outbound trips are forecast to fall by 3.8% in 2009 as the economy continues to weaken and a further 1.1% in 2010 as unemployment peaks. A strong catch-up period is forecast in 2011-12 followed by a return to trend growth that will increase outbound trips to 2.23 million by 2015. This represents a total increase over the forecast period of 13.3% (262,000 trips) and an average increase of 1.8% per annum.

Figure 19: Outbound Trips by New Zealand Residents (000s)

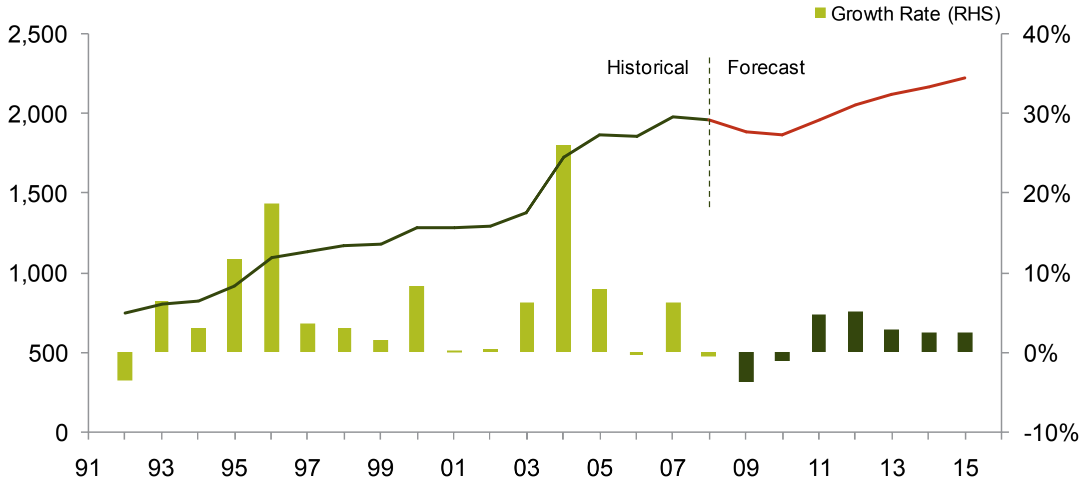


Table 12: Forecasts of Outbound Trips by New Zealand Residents (000s)

Calendar Year	Aust.	Fiji	US	UK	China	Cook Is.	Other	Total	Change
2008 actual	950	99	93	93	59	53	618	1,965	-0.6%
2009	936	83	89	89	55	55	584	1,890	-3.8%
2010	924	79	89	88	57	55	578	1,870	-1.1%
2011	961	90	93	91	62	58	604	1,959	4.7%
2012	1,008	97	97	95	67	62	635	2,060	5.2%
2013	1,033	102	99	97	71	64	653	2,119	2.9%
2014	1,059	106	102	99	74	66	667	2,173	2.5%
2015	1,084	110	104	101	78	68	683	2,228	2.5%
Growth 2009-15	135	10	11	8	19	14	65	262	
Total	14.2%	10.6%	11.9%	8.1%	32.2%	26.6%	10.5%	13.3%	
Annual Av.	1.9%	1.4%	1.6%	1.1%	4.1%	3.4%	1.4%	1.8%	

Travel by New Zealand Residents

Domestic Travel

New Zealanders generated 18 million domestic overnight trips in 2008 and 53.43 million visitor nights. Domestic overnight trips and nights are both forecast to increase in the next three years as the economic situation causes some New Zealanders to shift away from international travel towards domestic travel. Domestic overnight travel is forecast to start declining again in 2012 as the economic situation improves and outbound travel starts to grow again.

Figure 20: Overnight Trips by New Zealand Residents (000s)

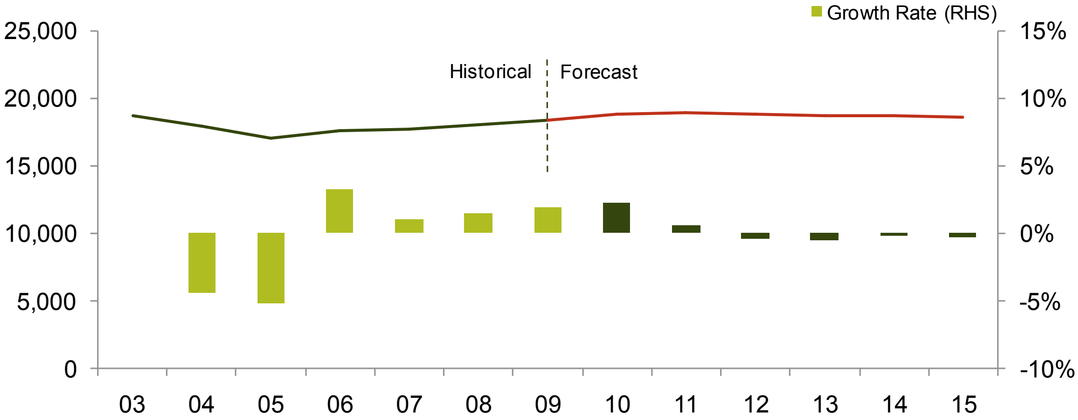


Figure 21: Visitor Nights by New Zealand Residents (000s)

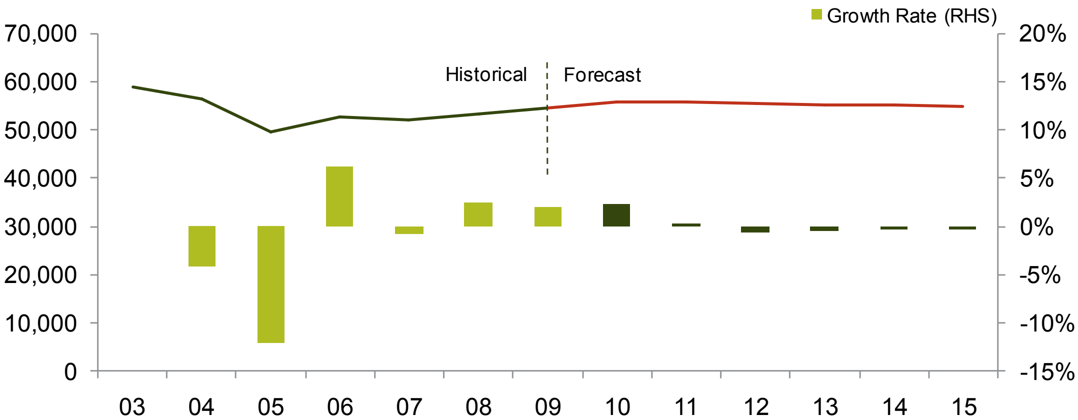


Table 13: Forecasts of Domestic Travel Activity by New Zealand Residents

Calendar Year	Day Trips (millions)	Overnight Trips (millions)	Visitor Nights (millions)	Nights per Trip
2008 actual	33.10	18.00	53.43	2.97
2009	33.39	18.35	54.47	2.97
2010	33.68	18.77	55.70	2.97
2011	33.97	18.87	55.90	2.96
2012	34.24	18.79	55.57	2.96
2013	34.51	18.70	55.29	2.96
2014	34.78	18.66	55.14	2.96
2015	35.05	18.61	54.99	2.95
Growth 2009-15	1.95	0.62	1.56	-0.01
Total	5.9%	3.4%	2.9%	-0.5%
Annual Av.	0.8%	0.5%	0.4%	-0.1%

Evolution of the Forecasts

The Ministry of Tourism's forecasts of visitor arrivals continue to evolve in response to changing market conditions.

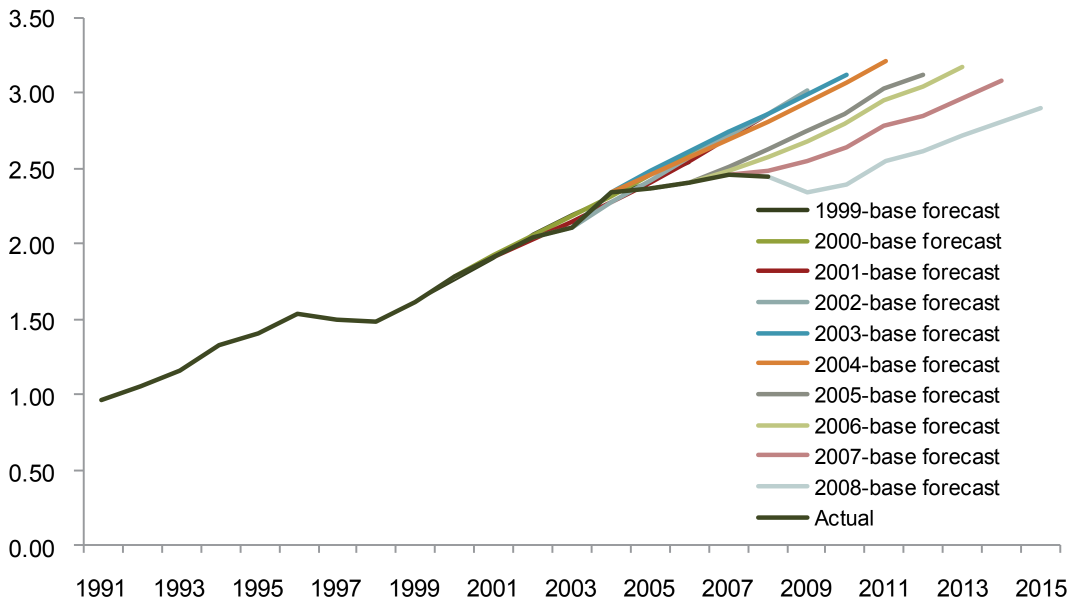
The earlier forecasts were based on a history of strong and consistent growth, and a belief that this growth would continue. However, there has been a noticeable change in the growth profile since 2005.

The forecasts initially assumed this change was temporary, and that arrivals would eventually revert to pre-2005 growth rates. However, the industry now believes that some of the recent flattening in growth has been caused by structural changes driven by factors beyond New Zealand's control, for example the rapid increase in short-haul travel in Asia.

As a result, the forecasting programme has given less weight to the pre-2005 growth rates over time. This revision is clearly evident in the gradual flattening of the forecasts on the graph below.

Conducting annual updates has allowed the forecasts to respond to these changes as they occur, while putting in place a formal process for understanding these changes and communicating them to a wide range of tourism stakeholders.

Figure 22: Summary of Visitor Arrivals Forecasts 1999-2008 (millions)



Performance of Past Forecasts

The 2007-base forecasts were relatively accurate in all high level measures. International visitor arrivals were overstated by 1.5%, international visitor nights were overstated by 0.9%, outbound trips were overstated by 1.2% and domestic visitor nights were understated by 1.0%.

Table 14: Performance of 2008 Forecasts (000s)

Key Tourism Indicators	2007 Actual	2008 Actual	2008 Forecast	Deviation from Actual	Direction Picked?
Visitor Arrivals					
Australia	950	976	978	0.2%	Yes
United States	216	212	212	-0.1%	Yes
Japan	122	102	108	5.3%	Yes
South Korea	99	79	87	9.5%	Yes
China	121	112	131	16.1%	No
United Kingdom	293	285	292	2.4%	Yes
Germany	60	62	61	-1.7%	Yes
Rest of World	595	617	617	-0.1%	Yes
TOTAL WORLD	2,455	2,447	2,485	1.5%	No
Visitor Nights					
Australia	10,174	10,463	10,702	2.3%	Yes
United States	3,734	3,570	3,697	3.5%	Yes
Japan	1,701	1,578	1,609	1.9%	Yes
South Korea	1,748	1,717	1,823	6.2%	No
China	1,646	1,699	1,678	-1.2%	Yes
United Kingdom	8,309	8,197	8,535	4.1%	No
Germany	2,564	2,647	2,657	0.4%	Yes
Rest of World	17,313	17,604	18,474	4.9%	Yes
TOTAL WORLD	47,189	48,729	49,175	0.9%	Yes
Outbound					
Australia	978	950	963	1.4%	Yes
United States	92	93	92	-1.6%	No
Hong Kong	18	20	20	0.4%	Yes
China	58	59	66	11.3%	Yes
Thailand	31	30	31	5.0%	No
India	26	28	27	-3.7%	Yes
United Kingdom	96	93	94	1.2%	Yes
Fiji	97	99	94	-5.3%	No
Cook Islands	52	53	55	3.0%	Yes
Samoa	37	38	37	-0.8%	Yes
Rest of World	493	502	511	1.7%	Yes
TOTAL WORLD	1,978	1,965	1,990	1.2%	No
Domestic					
Trips	49,492	51,094	50,489	-1.2%	Yes
Visitor Nights	52,105	53,425	52,865	-1.0%	Yes
Average Stay (nights)	2.94	2.97	2.97	-0.1%	Yes

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