



NEW ZEALAND TOURISM FORECASTS

Review of 2007 forecast performance

MARCH 2008 | www.tourismresearch.govt.nz

This report provides an interim review of the 2006-based forecasts of international visitor arrivals to New Zealand for 2007. Its purpose is to identify and explain any material variations between actual and forecast visitor numbers.

New forecasts for International Visitor Arrivals 2008-2014 (2007-base) will be published on 30th July 2008.



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Summary of Forecast Performance 2007

Total international visitor arrivals to New Zealand grew by 1.9% in 2007.

This result was less than the forecast growth rate of 3.2% for total international arrivals when the forecasts were released in August 2007, meaning that the forecasts overstated actual growth performance by 1.3%.

At the individual market level, there were a range of variations in the forecasts:

- Forecasts for the Australian (-1.8%), Japanese (1.7%) and German markets (-1%) were within 2% of actual visitor arrivals.
- Forecasts for the United States (2.9%); China (5.5%), United Kingdom (5.5%) and South Korean (14.2%) markets varied by more than 2% of actual visitor arrivals.

The major variances were in the South Korean and UK markets, both of which recorded declines in 2007 despite positive forecasts. There was a structural shift in the South Korean market in the latter months of 2007 due to a change in the commission structures imposed by inbound operators. This led to a large and immediate increase in the cost of a trip to New Zealand. The negative impact on this market has not yet been fully realised, with a further decline likely in 2008. The Rugby World Cup in France (held in October 2007) had an impact on the UK market, resulting in softer than expected arrivals in the last quarter of 2007.

This analysis does not take account of the uncertain state of the global economy in early 2008 and the impact this may have on consumer demand. It is highly likely that these factors and rising aviation fuel costs will contribute to softer demand through 2008.

Figure 1: Actual vs. Forecast Growth in International Visitor Arrivals to New Zealand in 2007

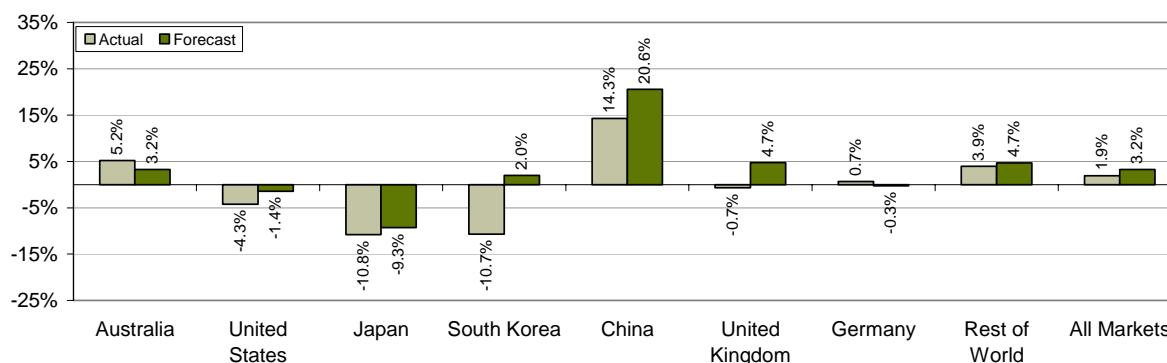


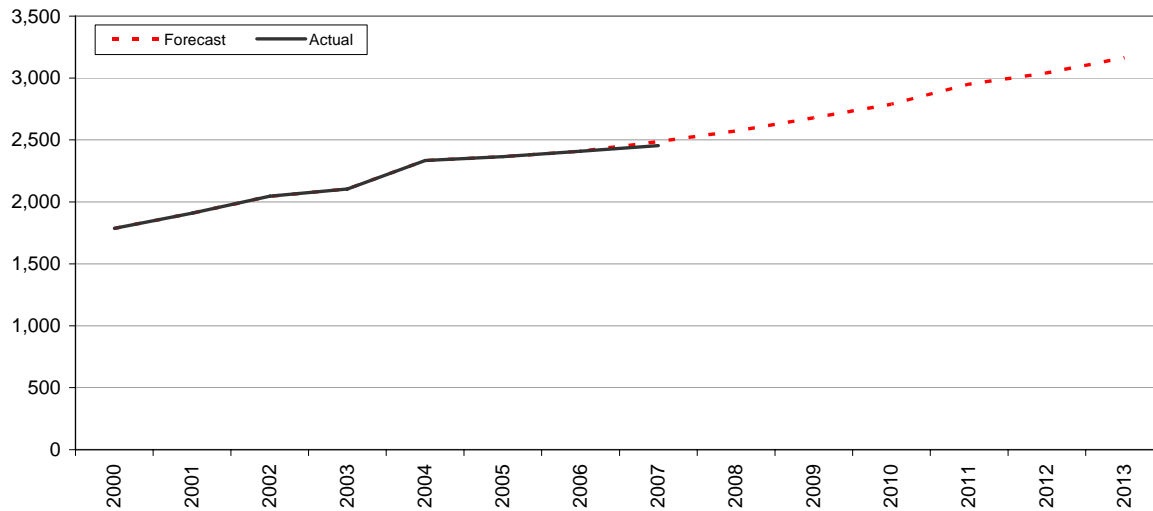
Table 1: Actual vs. Forecast Growth in International Visitor Arrivals to New Zealand in 2007

Market	Actual 2007		Forecast 2007		Variance	
	Number	Change	Number	Change	Number	Percentage
Australia	950,206	5.2%	932,820	3.2%	-17,386	-1.8%
United Kingdom	292,717	-0.7%	308,770	4.7%	16,053	5.5%
United States	216,027	-4.3%	222,380	-1.4%	6,353	2.9%
Japan	121,652	-10.8%	123,740	-9.3%	2,088	1.7%
China	120,804	14.3%	127,460	20.6%	6,656	5.5%
South Korea	99,453	-10.7%	113,550	2.0%	14,097	14.2%
Germany	59,765	0.7%	59,180	-0.3%	-585	-1.0%
Rest of World	594,660	3.9%	598,850	4.7%	4,190	0.7%
All Markets	2,455,284	1.9%	2,486,750	3.2%	31,466	1.3%

Total World

Actual 2007:	2,455,284 (up 1.9%)
Forecast 2007:	2,486,750 (up 3.2%)
Variance:	31,466 (1.3%)

Figure 2: Actual vs. Forecast International Visitor Arrivals to New Zealand ('000s)



Comment

The inbound market performed below expectations in 2007 with visitor arrivals increasing by 46,396 or 1.9% for the year, compared with the forecast increase of 3.2%.

In general, growth in visitor arrivals was hampered by a number of factors in 2007 including:

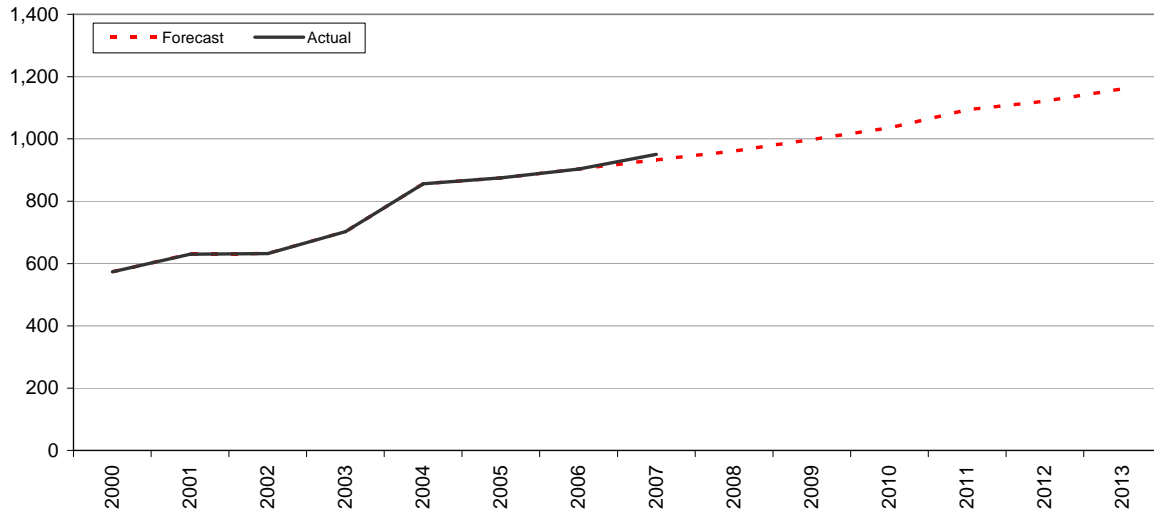
- the strong New Zealand dollar
- constrained aviation capacity in some markets
- competition with New Zealand outbound travel for available seats
- a general lack of profile or 'momentum' in most markets
- the credit crunch created by the sub-prime mortgage crisis
- low consumer confidence
- the relative price competitiveness and convenience of short-haul travel compared to long-haul travel
- competition from new destinations
- the Rugby World Cup in France.

Australia experienced growth in international visitor arrivals (2.0%) similar to New Zealand's in 2007 which suggests that the slowdown is part of a larger South Pacific effect. If trans-Tasman travel exchanges are excluded (i.e. Australians visiting New Zealand and vice versa) visitor arrivals to New Zealand did not grow at all in 2007 while arrivals to Australia increased by 1.1%. This highlights the importance of trans-Tasman tourism to both markets, particularly in the current environment where short-haul travel is cheaper, easier and more convenient than long-haul travel.

Australia

Actual 2007:	950,206 (up 5.2%)
Forecast 2007:	932,820 (up 3.2%)
Variance:	-17,386 (-1.8%)

Figure 3: Actual vs. Forecast Visitor Arrivals from Australia ('000s)



Comment

Australia is the only inbound market that performed comfortably ahead of expectations in 2007 with visitor arrivals increasing by 46,702 or 5.2% across the year.

This represents a significant increase in inbound travel off an already substantial base although, according to PATA (Pacific Asia Travel Association), the number of outbound trips made by Australians increased by 10.6% over the same period. The continued strength of the Australian inbound market to New Zealand can be attributed to several factors including:

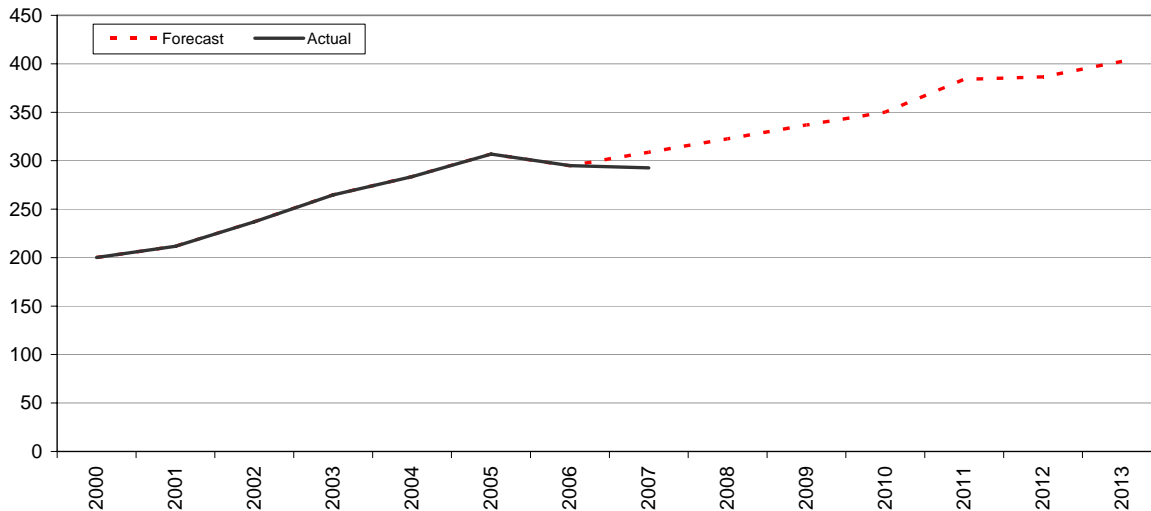
- High levels of connectivity and capacity between New Zealand and Australian ports, even though the number of seats on Tasman routes fell by 5% in 2007
- The price and convenience of short-haul travel relative to long-haul travel which has created a general world-wide shift towards short-haul travel
- The emerging winter peak, with Australian arrivals into Christchurch and Queenstown continuing to grow
- Considerable marketing effort in Australia and a high level of destination awareness sustained through regular sporting events.
- Australia's general appetite for outbound travel.

Australian visitor arrivals look set to increase further in 2008 with winter forward bookings sitting well ahead of 2007 levels. This, combined with the growing popularity of short-haul travel, should lead to further growth in Australian visitor arrivals in 2008.

United Kingdom

Actual 2007:	292,717 (down 0.7%)
Forecast 2007:	308,770 (up 4.7%)
Variance:	16,053 (5.5%)

Figure 4: Actual vs. Forecast Visitor Arrivals from the United Kingdom ('000s)



Comment

The UK market performed below expectation in 2007 with visitor arrivals falling by 2,095 or 0.7% for the year, compared with the forecast increase of 4.7%. The data suggests that the Rugby World Cup in France (held in October 2007) had an impact on travel patterns, with UK visitor arrivals to New Zealand falling by 8.8% in the months (Sep-Dec 2007) surrounding the event. Australia experienced a much larger drop in UK visitors in 2007, experiencing a decline of 45,300 visitors or 6.2%.

Consumer confidence levels in the UK are quite low at present due to the financial instability triggered by the US sub-prime mortgage crisis and the cost increases in mortgage finance as interest rates have escalated. This is undoubtedly having an impact on travel decisions and is likely to result in some substitution towards short-haul travel in the short-term.

The issue of carbon emissions is also gaining momentum in the UK and it is now commonly referred to by politicians, environmental lobbyists and tourism marketers, all of whom are trying to influence consumer behaviour. While it seems that this matter is more a topic of conversation than a behaviour shifter (as evidenced by the low uptake of voluntary offsets on commercial airlines), the general feeling is that it is only a matter of time before people start factoring carbon into their decision making.

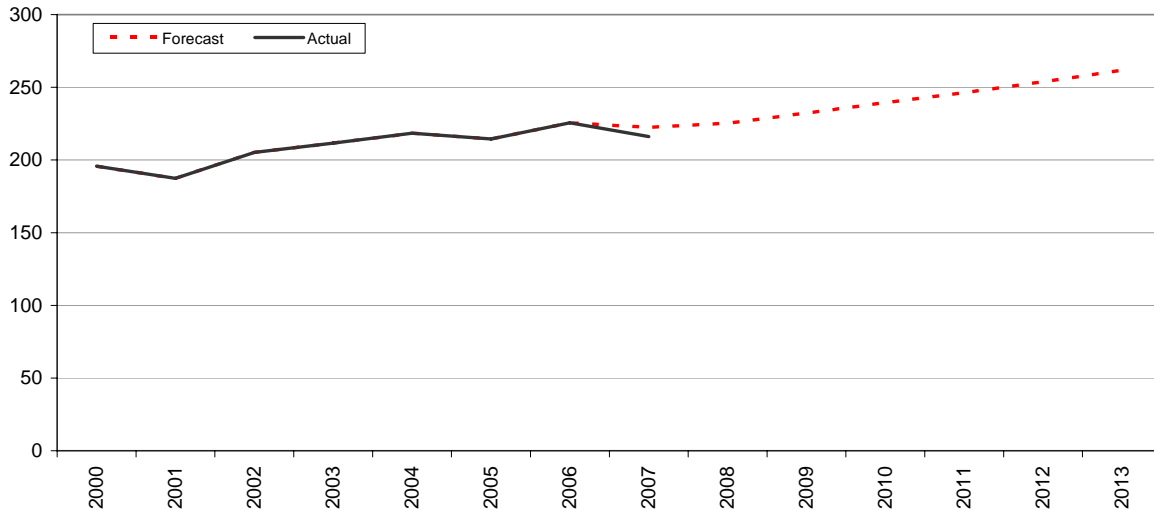
The escalating cost of jet fuel is having a direct impact on the cost of travel to New Zealand, with base fares rising by a further GBP100 in the past few months and the fuel surcharge on flights to New Zealand doubling from GBP80 to GBP160 in the past 12 months.

In general New Zealand does not have much 'momentum' in the UK market at present. This can be attributed to a variety of factors including: competition from emerging destinations offering similar experiences; low share of voice in the UK market; a strong GBP against a weak USD which is benefiting travel to both North and South America; and a general lack of profile and media coverage (the Lions Series was the last major New Zealand-related media activity in the UK). The UK market is expected to remain flat in 2008 and may not recover until mid 2009.

United States

Actual 2007: 216,027 (down 4.3%)
Forecast 2007: 222,380 (down 1.4%)
Variance: 6,353 (2.9%)

Figure 5: Actual vs. Forecast Visitor Arrivals from the United States ('000s)



Comment

The US market performed below expectations in 2007 with visitor arrivals falling by 9,602 or 4.3% for the year, compared with an expected drop of 1.4%.

The widely publicised sub-prime mortgage crisis in the US has had a marked impact on consumer confidence in recent months, and fears of a recession are undoubtedly having an impact on consumer spending. However, data supplied by PATA shows that US outbound travel increased by 3.9% in the first nine months of 2007 while visitor arrivals to New Zealand decreased by 4.8%.

The fact that US visitor arrivals to Australia increased by 0.8% in 2007 suggests that the decline in US arrivals to New Zealand is a local effect rather than a general trend. The exchange rate is undoubtedly a factor, with the continued strength of the New Zealand dollar having a significant impact on the price of a trip to New Zealand.

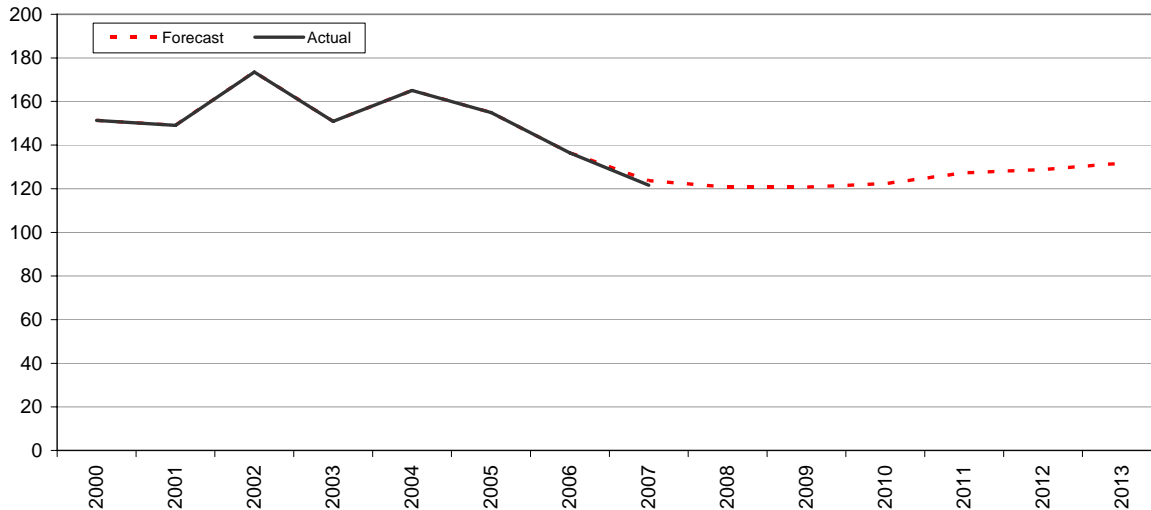
According to industry sources, consumer confidence is expected to rebound in 2008 as the effects of the sub-prime mortgage crisis dissipates and financial markets stabilise. However, if the US economy enters a recession – a distinct possibility based on current economic indicators – then both consumer confidence and spending could remain low for some time, or at least until after the election in November.

In the longer-term, the Australia-US Open Skies agreement and the entry of the 'V Australia' airline in November 2008 could lead to more capacity and competition on US-Australia routes. This could benefit both Australia and New Zealand as more than 50% of US arrivals to New Zealand also visit Australia on the same trip.

Japan

Actual 2007: 121,652 (down 10.8%)
Forecast 2007: 123,740 (down 9.3%)
Variance: 2,088 (1.7%)

Figure 6: Actual vs. Forecast Visitor Arrivals from Japan ('000s)



Comment

The Japanese market performed slightly below the already modest expectations for 2007, with visitor arrivals falling by 14,749 or 10.8% for the year, compared with an expected drop of 9.3%.

The Japanese market has been in steady decline since 2004 due to a variety of factors, including:

- The strong New Zealand dollar which has significantly increased the price of a trip to New Zealand relative to other destinations.
- The emergence of value-based airlines in Asia which have greatly reduced the cost of travelling within Asia.

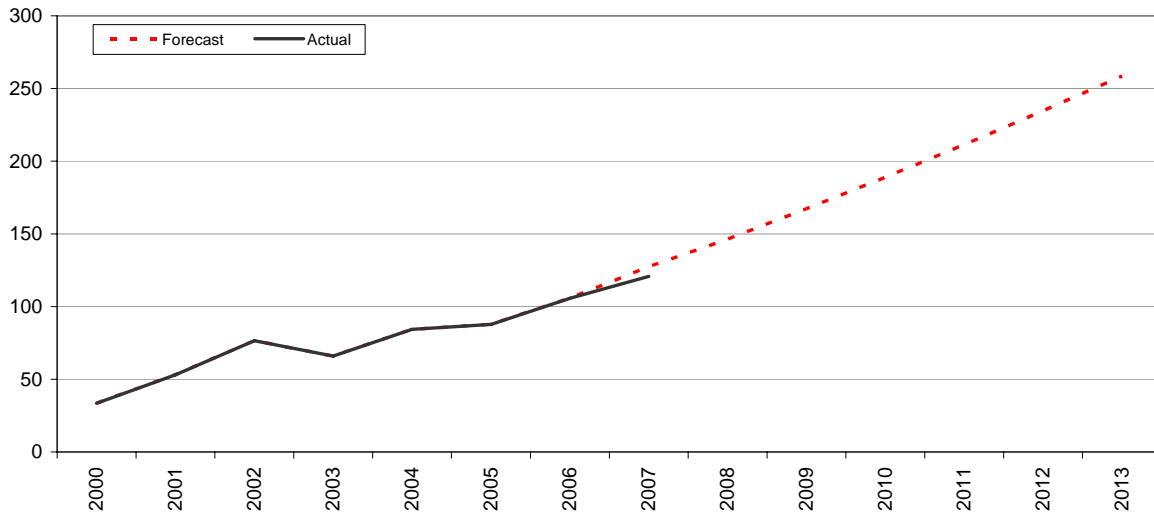
Japanese outbound travel has been relatively flat in recent years, increasing by 0.8% in 2006 and decreasing by 1.3% in 2007. However, the decline of 10.8% in Japanese arrivals to New Zealand in 2007 far outweighs the decline in outbound travel, implying that New Zealand has lost market share.

Generally, there were fewer Japanese travellers to long haul destinations (including North America, Europe and the Pacific) but more travel by Japanese within Asia. The decline in Japanese arrivals to Australia was greater (down 12.0%) in 2007 compared with 2006, and similarly to Canada (down 14.4%). In Hawaii, where around 18% of all visitor arrivals are from Japan, the decline in Japanese arrivals was more moderate at 2.6% in 2007, although it has experienced significant declines in recent years.

China

Actual 2007:	120,804 (up 14.3%)
Forecast 2007:	127,460 (up 20.6%)
Variance:	6,656 (5.5%)

Figure 7: Actual vs. Forecast Visitor Arrivals from China ('000s)



Comment

Visitor arrivals from China continue to grow strongly, increasing by 15,088 or 14.3% in 2007 following increases of 20.3% in 2006, 4.1% in 2005 and 27.9% in 2004. The forecast growth rate was 20.6%.

China surpassed South Korea in 2007 to become New Zealand's fifth largest inbound market and it recently surpassed Japan to become the fourth largest, exceeded now only by the US, UK and Australian markets.

That Chinese arrivals increased by less than the expected rate of 20.6% in 2007 is not particularly significant, given the difficulty of forecasting a fast growing emerging market that does not have the maturity or stability of New Zealand's other major markets. Chinese arrivals to Australia grew by a similar amount in 2007 (15.9%) which is not surprising given the amount of dual destination travel that occurs between the two countries.

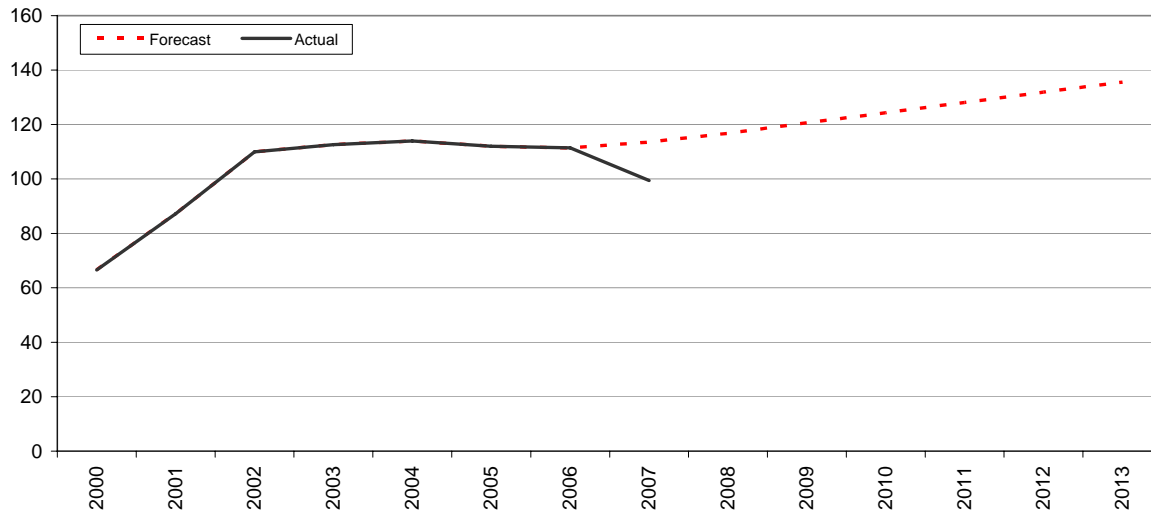
The outlook for the Chinese market is positive. In the short-term, growth in arrivals out of China could be affected by financial instability and the Olympic Games in Beijing, but in the long-term the Chinese market is almost certain to grow on the back of strong economic growth and a huge population base.

One countervailing factor is that the Chinese government is about to grant the US approval to accept ADS groups from China. Outbound agents in China expect this to result in a surge in demand for US tours which will likely have an impact on the growth experienced in Australia and New Zealand.

South Korea

Actual 2007:	99,453	(down 10.7%)
Forecast 2007:	113,550	(up 2.0%)
Variance:	14,097	(14.2%)

Figure 8: Actual vs. Forecast Visitor Arrivals from South Korea ('000s)



Comment

The South Korean market turned sharply downward in 2007 with visitor arrivals falling by 11,908 or 10.7% for the year, compared with a forecast increase of 2.0%.

The majority of the decline occurred in the second half of the year, with arrivals between June and December 2007 being 19.5% lower than the same period in 2006. The reason for the sharp drop-off in arrivals is related to changes to the practices of South Korean tour operators that had the effect of raising the headline price of trips to New Zealand. The changes were in relation to commissions – until recently it was common for inbound operators to derive a high percentage of their income from shopping commissions, rather than from the headline price of the trip. With the change, now inbound operators receive the full price of the trip up front.

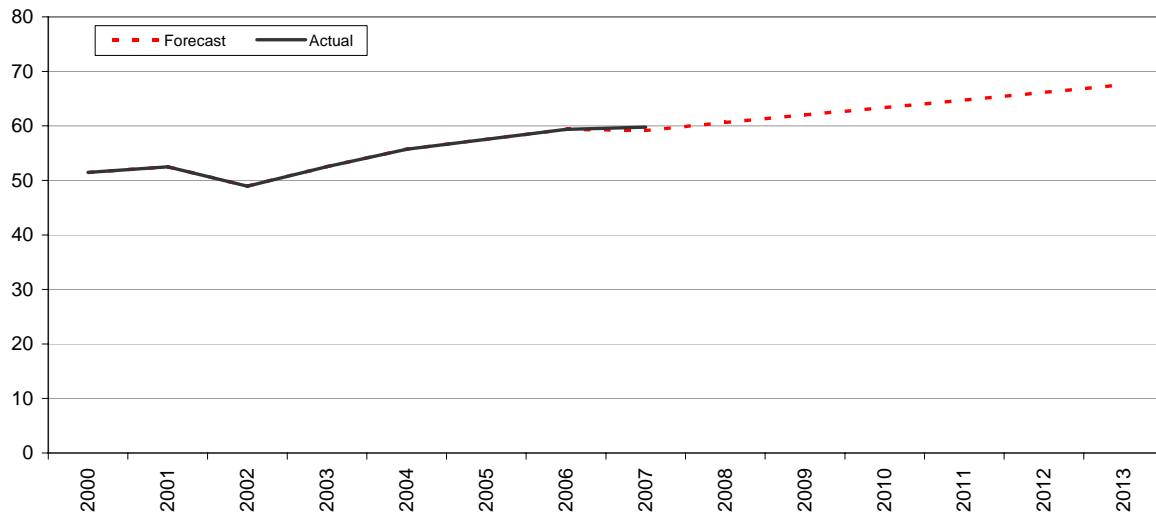
In addition, air capacity on direct flights to New Zealand fell by 16% as Korean Air reduced both aircraft size and frequency on the Seoul-Auckland route. Korean Air has also advised that it will be withdrawing the three times per week Seoul-Christchurch services which have typically been operated in the Jan-Feb period each year. The reduction in air capacity has resulted in the firming of airfares and more South Koreans having to travel via Australia to get to New Zealand due to a shortage of seats during peak demand periods.

The number of South Koreans visiting Australia also fell in 2007, although not by as much, declining by 2.9% across the year and 12.1% between June and December. This is not surprising given the amount of dual destination travel that occurs between Australian and New Zealand.

Germany

Actual 2007: 59,765 (up 0.7%)
Forecast 2007: 59,180 (down 0.3%)
Variance: -585 (-1.0%)

Figure 9: Actual vs. Forecast Visitor Arrivals from Germany ('000s)



Comment

The German market performed slightly ahead of expectations in 2007 with visitor arrivals increasing by 412 or 0.7%, compared with a forecast decline of 0.3%.

Germans are the world's most prolific travellers on a per capita basis and are often described as 'early adopters' or 'new frontier travellers' in the context of tourism. Competition from emerging destinations in South America, India, China and Africa has softened demand for travel to New Zealand in recent years and it is widely accepted that this trend is set to continue.

Despite many Germans having strong environmental values, they regard travel as an essential aspect of modern life and are prepared to make environmental sacrifices in other aspects of life so that they can continue to enjoy the benefits of travel. This bodes well for New Zealand but may require New Zealand to do a better job of demonstrating its environmental credentials to stay popular with the German market.