

Media Statement



Tourism demonstrates resilience to high valued dollar

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A report released by the Ministry of Tourism today gives insight into the relationships between movements in the value of the New Zealand dollar and the performance of the tourism sector.

The research was undertaken for the Ministry by the New Zealand Institute of Economic Research (NZIER).

In the long term, the exchange rate is not a determinant of tourism growth. Rather, income growth in our origin markets is key. The research finds that a 1% growth in world incomes typically drives growth in tourism numbers by 1.7%. This characteristic has driven the strong tourism sector performance of recent decades.

In the short term, however, the exchange rate has an impact on tourism sector performance, although this varies considerably depending on the performance measures (eg arrivals or spend), purpose of visit and origin market.

Key findings from the research are:

- Arrivals overall are only slightly influenced by exchange rate movements, with a 1% increase in the value of the New Zealand dollar estimated to reduce visitor numbers by 0.02% - a very small relationship.
- Expenditure by these visitors is considerably more sensitive. For every 1% increase in the value of the New Zealand dollar, expenditure per visitor goes down by 0.8%.
- Outbound travel by New Zealanders was found to be highly sensitive to movements in exchange rates. On average, a 1% strengthening in the New Zealand dollar will increase outbound holiday travel by 0.87%.

“The research shows that international tourism sector is resilient to, but not unaffected by, exchange rate movements,” said Bruce Bassett, Tourism Ministry Research Manager.

“It shows that even in a high exchange rate environment the numbers of visitors will hold up very well – driven by the income growth of our markets. Against this, expenditure is clearly more sensitive and we do see reductions of spend that are masked by the underlying growth in arrivals over time.

This relationship is reinforced by the latest result from the International Visitor Survey for the year to March 2007 where the expenditure increased by 0.2% to \$6.3 billion over a period when international arrivals increased by 2.8%.

“Also, when our dollar is high, New Zealanders will make the decision to travel off-shore and this has the potential to dampen the level of domestic travel activity,” said Mr Bassett.

The research found that our markets respond differently to exchange rate movements. For instance, Australia and the United Kingdom were shown to be insensitive to movements, whereas Germany, Japan, USA and South Korea were considerably more sensitive.

Holiday travel was found to be more sensitive to exchange rates than other travel purposes such as Visiting Friends and Relatives (VFR) and Business travel.

The research also identified the lags that exist with the relationships. For instance, the lag effect between an exchange rate movement to its peak impact on visitor arrivals was typically a year and half to two years. For expenditure, there was no lag as visitors’ spending was affected by the exchange rate at the time of their visit.

Mr Bassett added that this research was highly valuable in understanding the relationship between exchange rates and tourism in New Zealand and the findings would inform planning processes both in industry and in government.

For further information and a copy of the Executive Summary and the full report visit the Ministry of Tourism research website (www.tourismresearch.govt.nz) or contact Bruce Bassett – telephone (04) 498 7448 or email bruce.bassett@tourism.govt.nz.

www.tourismresearch.govt.nz

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