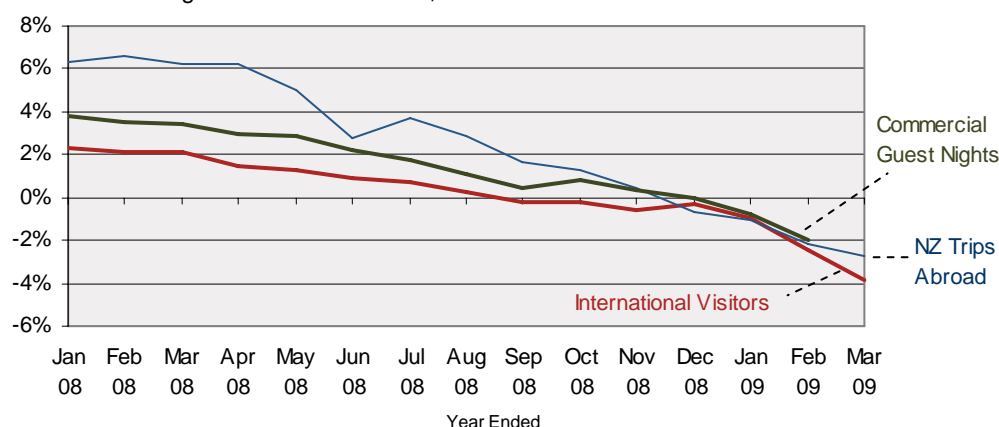


COMMENTARY

Tourism Sector Adapting to Downturn

The global economic slowdown is impacting on the New Zealand tourism industry with tourism demand in New Zealand continuing to soften (refer Figure 1 below). International visitors were down 3.9% in the year to March 2009 and outbound trips by New Zealand residents were down 2.7%. Commercial guest nights in the year to February 2009 were down 2.0%.

Figure 1: Inbound Travel, Outbound Travel and Commercial Guest Nights
Rolling Annual Growth Rates, Jan08-Mar09

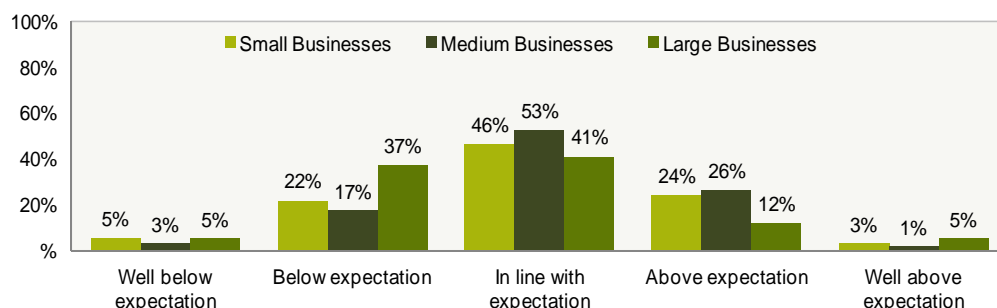


Tourism demand continued to soften in the first quarter of 2009.

The timing of Easter, however, significantly influenced these results with a significant volume of travel associated with the Easter break falling in April this year compared to March last year. By adjusting for the 'Easter effect', the year-ended decline in international arrivals reduces to -2.5% (compared to the -3.9% figure). The Easter effect also means that the April figures will look correspondingly better, resulting in likely positive growth in terms of international arrivals.

A key factor in understanding tourism in this environment is how the sector is experiencing and responding to the challenges at present. The *Tourism Industry Monitor* (www.tourismresearch.govt.nz/tim) provides some insights in this regard. Firstly, it provides a picture of firms' past performance and their future expectations. Secondly, it highlights the issues faced, with the 'lack of demand' clearly the main issue. Thirdly, it shows how firms are performing in this environment (refer Figure 2).

Figure 2. Performance of Tourism Firms Over Past 3 Months Compared to Prior Expectations



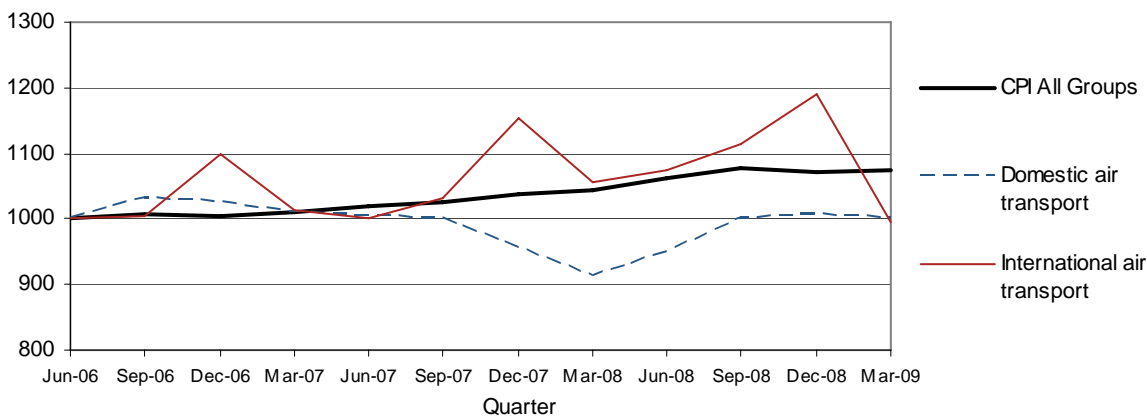
The bell-curve shape of the results highlights that the firms are adapting, even though some firms were reporting demand levels to be down. This adaptation is important as it shows that the industry is able to adjust their operations to the current conditions. Such adaptation is important to weathering downturns.

The other response approach is to stimulate demand, and there is evidence that this is occurring widely across the sector.

COMMENTARY

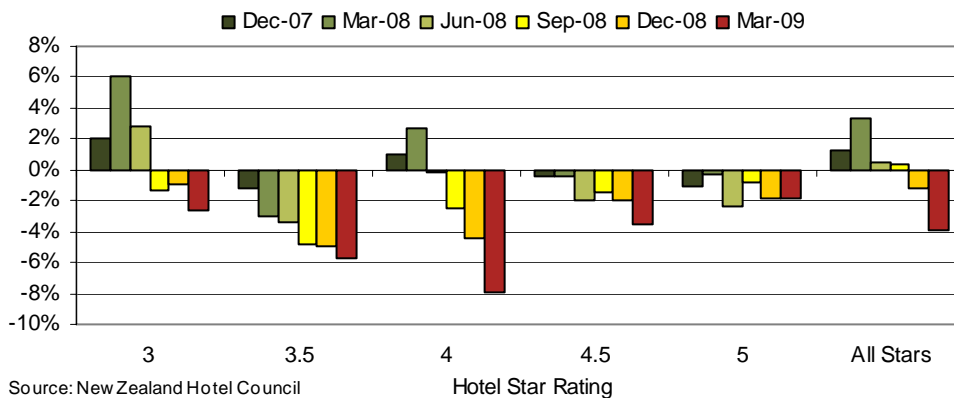
In the aviation sector, price has been used to stimulate demand. The best data to illustrate this is the Consumer Price Index to March 2009 (refer Figure 3). For international airfares, prices had been rising on a regular seasonal pattern, up to December 2008, but had fallen markedly since then and more sharply than the normal from the peak-season high (down 5.8% in Mar-09 quarter). Domestic airfares have been consistently lower than the overall CPI throughout 2008 and into 2009 and this will have stimulated domestic travel.

Figure 3: Consumer Price Indices – International and Domestic Airfares, Jun06-Mar09



Another illustration of industry response comes from the New Zealand Hotel Council's room rate data. This shows that average hotel room rates have decreased in the last two quarters, and by 3.9% in the first quarter of this year (refer Figure 4). However, the price response has varied depending on the quality of hotels, with 3.5 and 4 star hotels showing a greater drop in room rates by 5.7% and 8.0% respectively.

Figure 4: Percentage Change in Hotel Room Rates by Quarter and Star Rating, Dec07-Mar09



Source: New Zealand Hotel Council

Four-Star hotels showed the greatest decrease in room rates.

Other important stimulatory factors in place at present include the relative exchange rate of the New Zealand dollar, which has become significantly more favourable over recent months, and the marketing activities of government and industry. An additional \$2.5 million has been provided for Tourism New Zealand to boost the Australian market and this has been supported by significant additional investment, for instance by Air New Zealand.

Finally, the 6.2% increase in domestic travel expenditure in 2008 has more than off-set the 3.2% reduction in international spend, resulting in total spend by international and domestic travellers increasing by 2% in 2008 to \$14 billion. So, while significant challenges are being faced across the tourism industry at present, the large base of economic activity associated with tourism is actually holding up relatively well.