

COMMENTARY

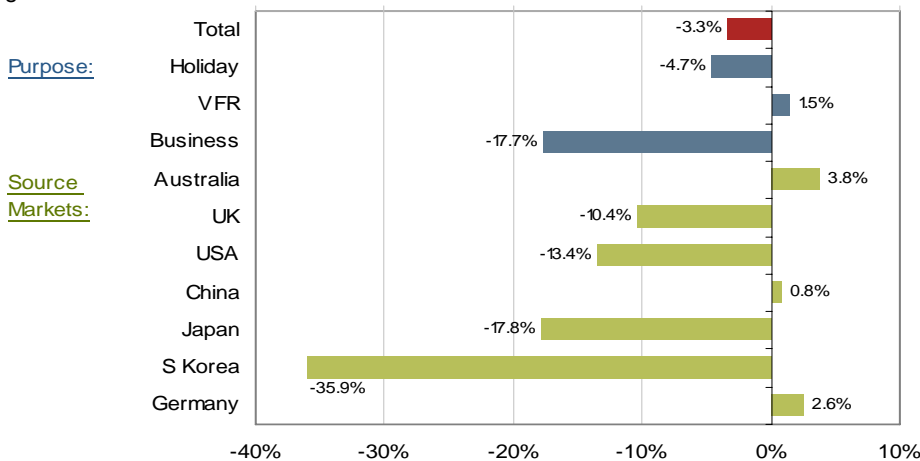
Summer Season Tourism Performance and Comment on Outlook

At the beginning of the summer season, it was clear that the New Zealand tourism industry was facing significant challenges as the global economic situation deteriorated. The view at the time was that the summer season would be slightly down, with less certainty beyond this.

As it has turned out, the main indicators for the summer season show a relatively small decline in demand, with international visitor arrivals down 3.3% for the Dec08-Feb09 quarter, and commercial accommodation nights down 3.2% for the months of Dec08-Jan09.

However, there has been considerable variation across the sector as seen in Figure 1 below. Australia was positive, as was Visiting Friends and Family travel. Otherwise, most indicators are negative, with some sharply down, such as the Asian markets and business travel. The important UK and US markets were down by over 10% for the Dec08-Feb09 quarter.

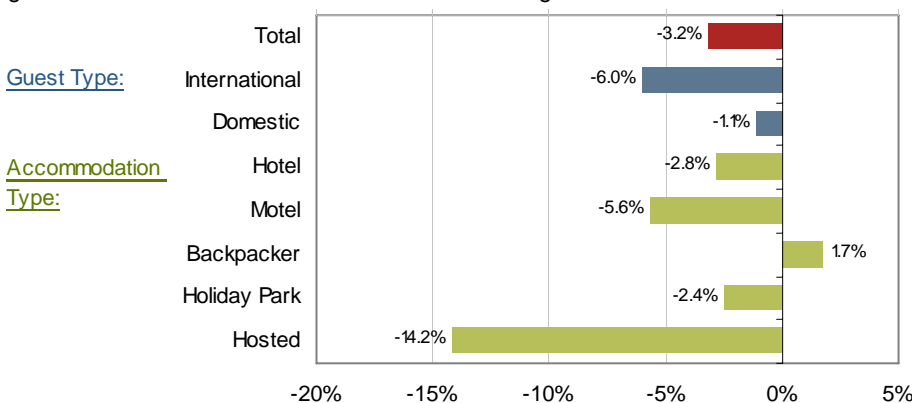
Figure 1: International Visitor Arrivals - Growth rates for Dec08-Feb09



Visitors from Australia, Germany and China recorded increases, while UK, US, Japan and South Korea recorded large decreases.

The differential performance of international markets is mirrored in the commercial accommodation sector for the months of Dec08 and Jan09 (February 2009 data is not yet available). This highlights that international nights were down significantly (-6.0%), with domestic nights less so (-1.1%). Motels and Hosted/B&B guest nights were down more than hotels and holiday parks, while backpackers recorded a small increase.

Figure 3: Commercial Accommodation Guest Nights – Growth rates for Dec08-Jan09



Greater loss of international guests than domestic guests.

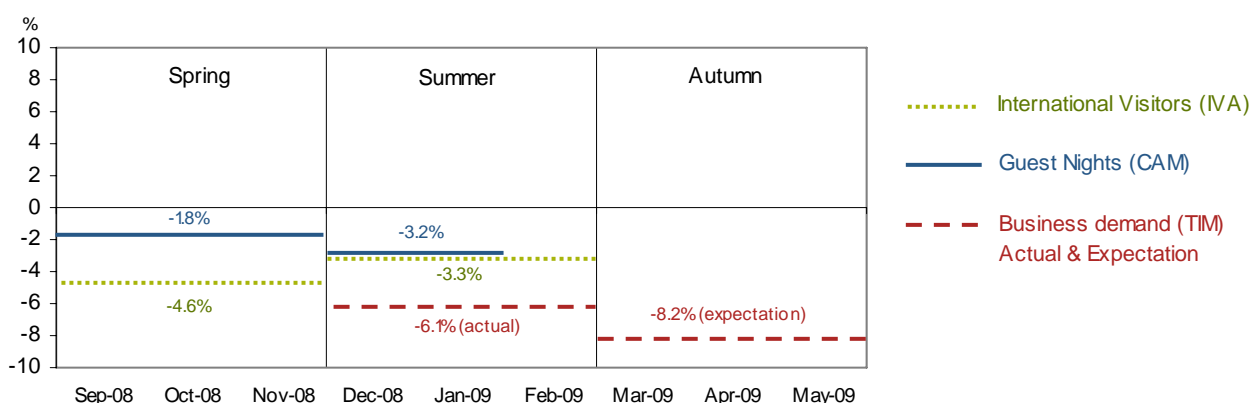
These statistics are national measures and do not necessarily reflect more specific effects on operators in the tourism industry, whether by type or location of business. For instance, at present operators providing services to Asian markets are being much more affected than those servicing domestic or Australian travellers.

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In order to get a better sense of the sentiment of the tourism industry a new survey, the Tourism Industry Monitor (TIM), has been established to provide a monthly measure of the recent performance and outlook of the respondent firms. Overall demand was assessed as being down by 6.1% over the past quarter, with larger firms more affected than smaller ones.

Figure 4 below compares the TIM results with that of actual international visitor arrivals and commercial guest nights for the summer quarter. This shows that the TIM respondents have been more affected than other data would indicate. The TIM also asks respondents for their demand outlook, and they indicated that over the next quarter demand is expected to decline by 8.2%, a worsening of the current level.

Figure 3: Tourism Sector Performance and Expectation, % change from previous year



(TIM: Tourism Industry Monitor, a monthly survey of 1,000 tourism firms about performance over the last 3 months and expectation for next 3 months. For further details see www.tourismresearch.govt.nz/TIM)

The weakening expectations of tourism sector demand as expressed in the TIM for the next quarter is consistent with the wider economic context. It also matches the year-ended trend lines for the key sector indicators (refer Figure 4 below).

Consideration of the current data needs some explanation. Firstly, sector performance for the early part of 2008 was quite strong, so the current point of comparison is against record highs last year. Secondly, February 2008 was a leap year so this year's monthly fall of arrivals of 8.5% is adjusted to being a 5% decline based on the normal 28 days in February. Thirdly, March data will be affected by Easter moving into April this year. This will result in a significant fall before any real declines are felt, although April will be correspondingly stronger.

This is a challenging time for tourism, but against many tests, the level of activity in the sector is holding up better than might be expected given the international context, and this provides a degree of comfort around the depth and duration of the current downturn.

Figure 4: Rolling Annual Growth Rates: Inbound & Outbound Travel, and Guest Nights

