

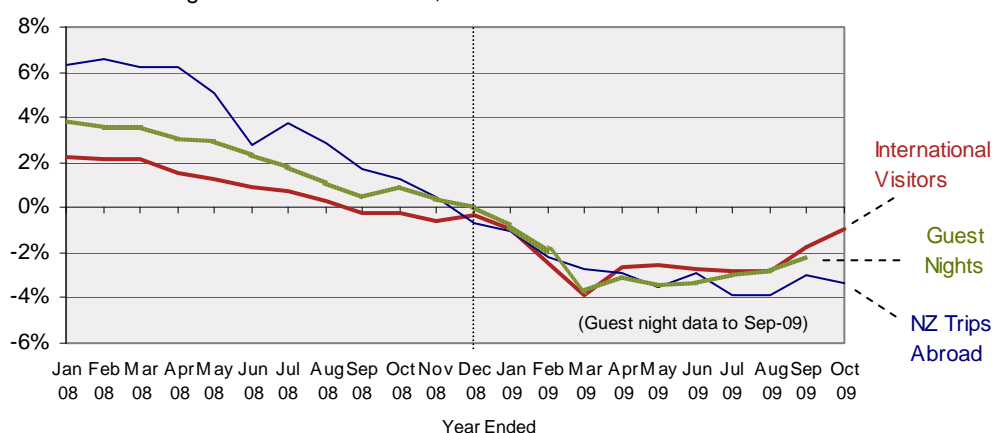
# COMMENTARY

## Tourism sector tracking past the worst

The latest tracking indicators show that the tourism industry continues to improve as it moves through the negative cycle caused by the global financial crisis and Influenza A (H1N1).

International visitor arrivals appear to have pasted the trough, with arrivals tracking at just 1% down in the year to October 2009, with the months of September and October being up 9.3% and 7.7% respectively. Outbound travel by New Zealand residents remains soft, down 3.3% on last year while commercial guest nights were also improving, up to -2.2% for the year ended September 2009 (refer Figure 1).

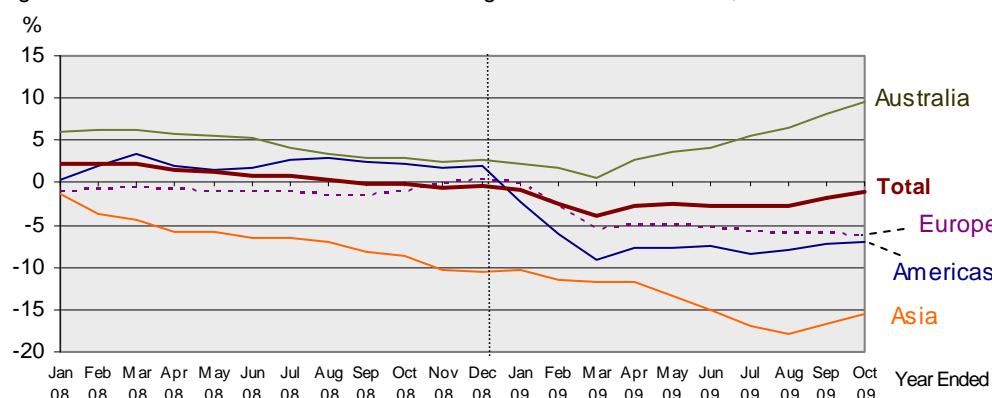
Figure 1: Inbound Travel, outbound Travel and Commercial Guest Nights - Rolling Annual Growth Rates, Jan08-Oct09



International visitor arrivals have been improving over the last two months (Sep-Oct), signalling the beginning of recovery.

Within the overall picture of visitor arrivals, however, there are considerable differences in the performance of regional markets. The strength of the Australian market has been particularly important, especially over the past seven months when this market stepped up a gear. In the year to October, visitor arrivals from Australia increased by 94,000 or 9.7% which cancelled out the most of the decrease of 118,000 or 7.9% in all other markets (refer Figure 2). Over the past year Europe arrivals were down 6.3% (32,000), the Americas down 7.0% (21,000) and Asia down 15.5% (72,000).

Figure 2: International Visitor Growth - Rolling Annual Growth Rates, Jan08-Oct09



Australian market has been the major driver of inbound tourism and offsets weakness in other markets over the last seven months

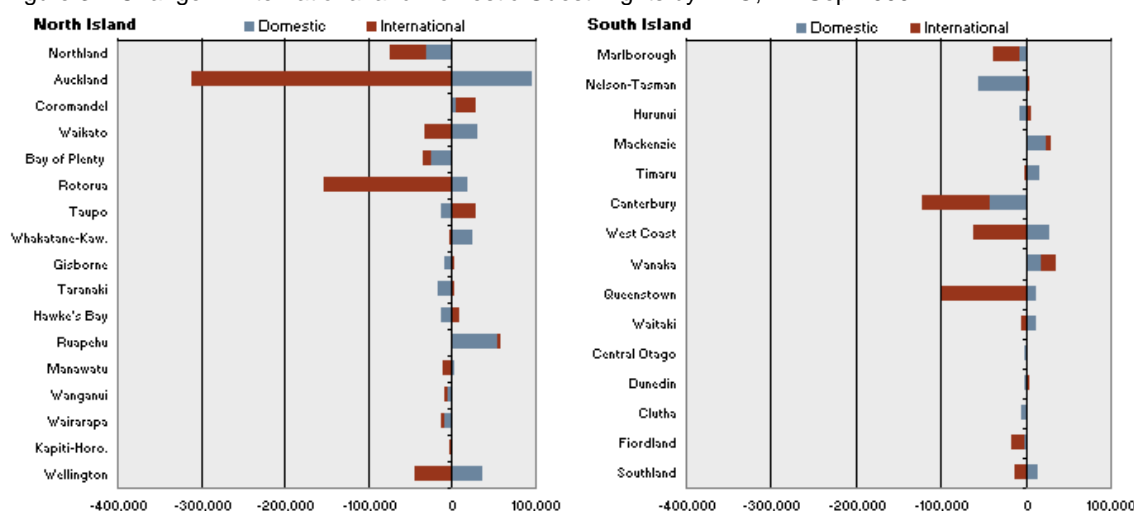
With this strong growth of the Australian market there has been a sharp rise in the Australian share of total arrivals to reach 43.5% at present, up from 39.3% last year and 31.3% in 2002. By contrast, the share of arrivals for Asian markets has reduced considerably to 16.1% at present, down from 18.9% last year and 26.0% in 2002. Europe (19.7%) and the Americas (11.3%) have lost some share as but to a lesser extent, by about one percent point.

# COMMENTARY

Total commercial guest nights for the year ended September 2009 were down by 2.2%. This was driven by a fall in international guest nights (down 5.9%) that was partly offset by domestic guest nights that increased by 0.5%. The fact that total arrivals had fallen (1.0%) less than international nights (5.9%) is not unexpected given that we received more short-stay Australian visitors and fewer visitors from other markets that stay longer and are more likely to use commercial accommodation.

An effect of the change in composition of our international markets and the relative stability of domestic guest nights is that there has been a considerable difference in the changes to regional guest nights over the past year (refer Figure 3).

Figure 3: Change in International and Domestic Guest Nights by RTO, YE Sep-2009



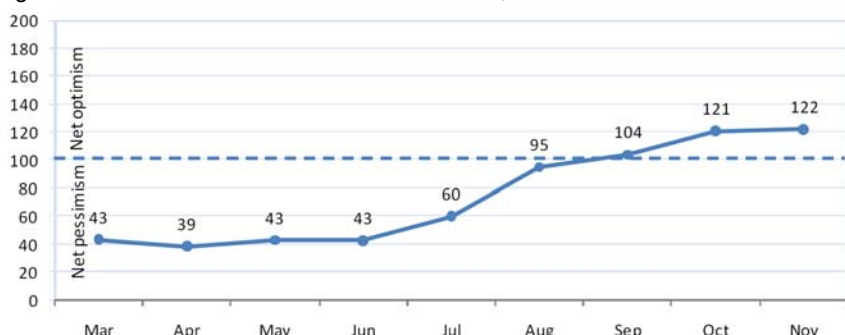
Decrease in International guest nights contributed to the weak performances in some RTO areas.

This highlights that the biggest impacts have been felt in regions with high exposure to international markets and that the impact of the tourism downturn has been uneven across the country. For instance, Auckland and Rotorua experienced large falls in international guest nights which is associated with sharp falls in Asian travellers to these regions. Even though domestic nights increased, the net effect was significantly fewer guest nights for both regions.

In the South Island, the pattern is the same with the regions that rely on international tourism impacted the most (e.g. Canterbury, West Coast and Queenstown), whereas the reduction of guest nights in other regions is a mix of smaller ups and downs.

To place the improved sector data in context, it is significant that the sentiment of tourism industry operators is also improving, with confidence levels being positive for the third successive month (refer Figure 4). Looking towards, it is reassuring that all main indicators are showing that the sector has pasted the worst of the downturn of the past year.

Figure 4: Tourism Business Confidence Index, March-November 2009



Tourism business confidence continues to improve with more positive outlook for the next three months.