

COMMENTARY

Tourism Outlook Picking Up

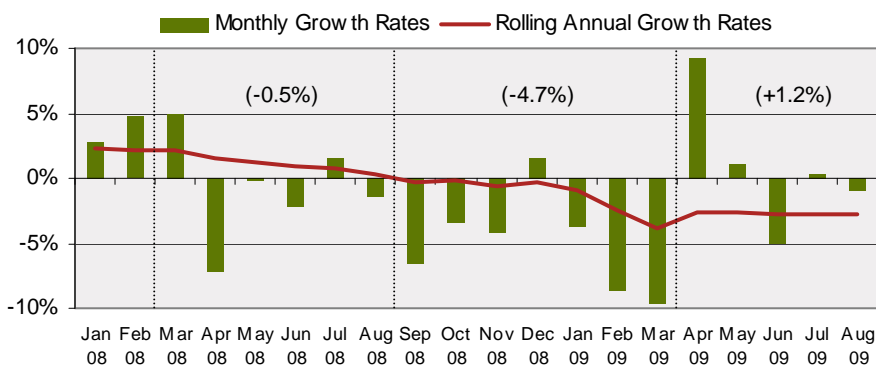
This time last year, dark clouds loomed over the tourism industry, both in New Zealand and globally. Slowing global economies were further shocked by major financial failures and this resulted in a sharp contraction of economic and tourism activities worldwide. A year on, it is becoming increasingly clear that the worst is over, for both the global economy and the New Zealand tourism industry.

Figure 1 below shows the progress of international visitor arrivals over the last 20 months in three defining periods:

- March to August 2008** - The impacts of slowing world economies, high oil prices and a highly valued NZ\$ suppressed tourism activity into New Zealand. This was the start of the current slowdown in the New Zealand tourism sector.
- September 2008 to March 2009** - The impact of the global financial crisis resulted in sharp declines in international visitor arrivals. Falls of this depth and duration are unusual, and this reflects the gravity of the downturn. The months of February and March were most affected and importantly those visitors not arriving in this period were long-haul leisure travellers from such important markets as the UK and US. These losses certainly affected the peak of the high value 'holiday' season. Overall, nearly half of the 72,000 fall in arrivals over the past year occurred in these two months alone.
- April to August 2009** - Following an Easter rebound in April, tourism demand has been reasonably stable. The main features have been the stunning strength of the Australian market (up 16.1% for these five months); the impact of Influenza A (H1N1) that dramatically affected Asian markets (down 24.6%), with June being the worst month; and gradual easing of the decline of European and American markets (down 2.6%).

The next phase to the end of 2009 will likely see a recovery of growth on a monthly basis. However, this will be off the weak performance over the equivalent period last year. The point at which real growth will occur is less clear and it is likely that this will not be until 2011 when over 2.56 million arrivals are expected – refer the Ministry of Tourism's 2009-2015 forecasts: www.tourismresearch.govt.nz/forecasts.

Figure 1: International Visitor Arrivals
- Monthly and Rolling Annual Growth Rates, Jan08-Aug09



International visitors down 2.8% in year ended August 2009, but up 1.2% over the past five months.

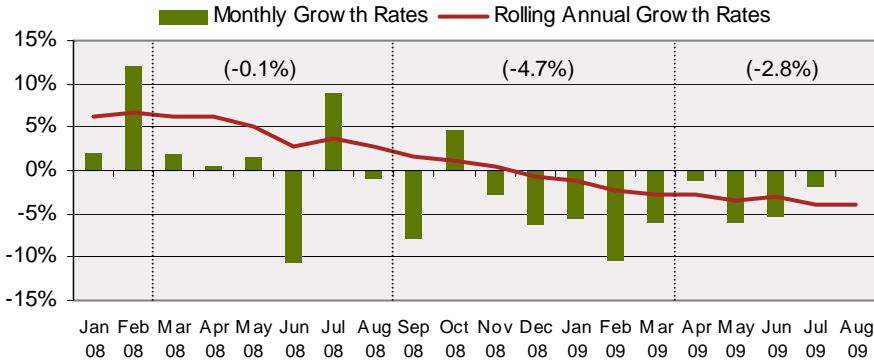
An important aspect of New Zealand's performance over the last year is that our 2.8% decline in arrivals in the year to August 2009 is relatively better than many other destinations around the world, for example - Australia (down 3.5%) and UK (down 8.4%) to July; Hawaii (down 12.5%), China (down 17.8%) and Japan (down 18.7%) to June; and Canada down 6.0% (to May).

New Zealand's inbound travel doing better than many other destinations.

The pattern seen in Figure 1 is very similar for New Zealand outbound travel and nights in commercial accommodation (Figures 2 and 3 below). In particular, accommodation guest nights have stabilised over the four months to July, with an increase of 1.1% for this period.

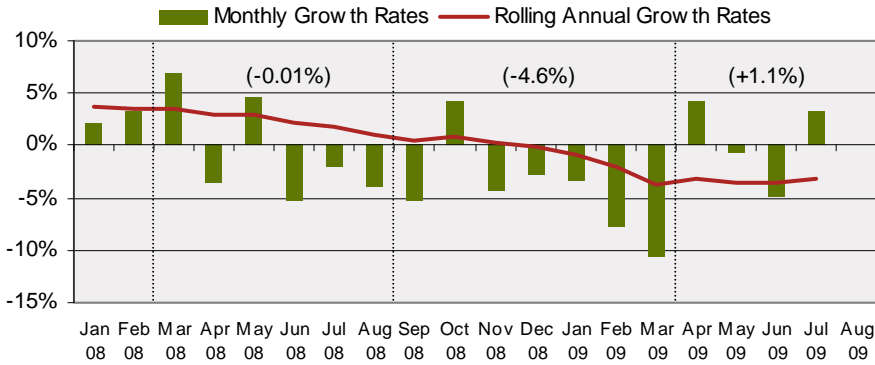
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Figure 2: Outbound Overseas Trips by New Zealand Residents
- Monthly and Rolling Annual Growth Rates, Jan08-Aug09



Outbound travel down 3.8% in the year to August 2009.

Figure 3: Commercial Accommodation Guest Nights
- Monthly and Rolling Annual Growth Rates, Jan08-Jul09

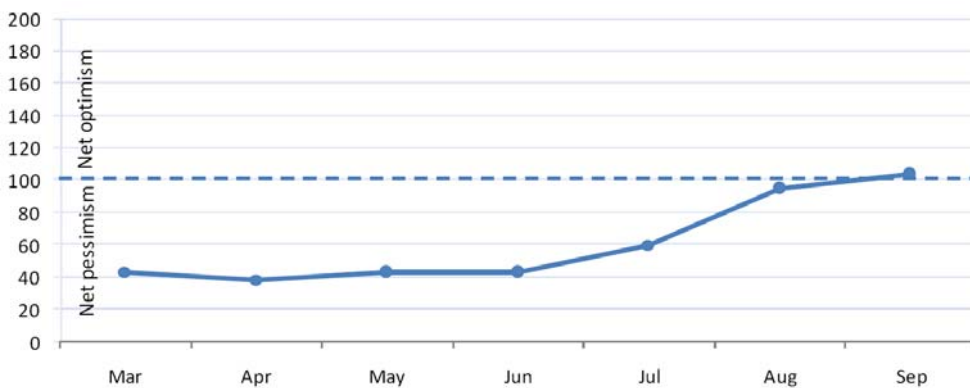


Commercial guest nights down 3.1% in the year to July 2009.

Tourism Business Confidence Improving

Tourism operators are expressing an improved outlook for the sector, and for the first time there are more respondents with a positive outlook for the next three months than those with a negative outlook. The September Tourism Industry Monitor (TIM) is based on 790 respondents and is available at: www.tourismresearch.govt.nz/tim

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



Tourism business confidence has improved and there is net optimism in outlook for the next three months.

Together, these indicators show that the New Zealand tourism industry is coming through the current downturn. The rate of recovery will be important, and there are many uncertainties and risks to this more positive sentiment. However, as the sector orients itself towards the next summer season, the outlook over this period and beyond is certainly improving. This is a much better position than we were in this time last year.