



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI

Understanding variability in tourism spend

An analysis of the spending patterns of international
visitors to New Zealand from 2013 to mid-2018

October 2018





**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HĪKINA WHAKATUTUKI

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Understanding variability in tourism spend

There is an expectation that growth in visitor numbers should result in comparative growth in visitor spend. While over the long term this is a reasonably consistent relationship, it is often not true in the short term. Visitor spend in the period from 2013 to mid-2018 was particularly variable. This report describes and explains why this variability occurred.

Key findings

1. International visitor number and spend growth diverged at certain points within the 2013 to mid-2018 period

- › International visitor spend grew at a slightly higher rate (10 per cent per year when adjusted for inflation) than visitor numbers (seven per cent per year)
- › Although growth in visitor numbers was largely steady, international visitor spend growth varied far more
- › While it would be logical for spend growth to follow visitor number growth, this does not always occur exactly due to changes in the average visitor spend

2. Many factors affect average visitor spend, and these often go beyond the tourism industry, Government and local economy

- › **Exchange rates** – These have a strong relationship with average spend as they can significantly alter the value in New Zealand dollars of international visitor budgets
- › **Composition of visitors** – The Government and tourism sector have worked strategically towards growing tourism value faster than volume, targeting higher-value visitors and segments. New Zealand attracted greater proportions of higher-spending markets in 2018 compared to 2013 (e.g. China and the US), reducing the Australian market share and increasing overall average spend. In addition, there have been changes in market segments, such as an increase in free and independent travellers (FITs) from China
- › **Other economic factors** –
 - **Airfares** – Increased competition and lower fuel costs have lowered airfares over time. This has likely increased average spend in New Zealand by reducing the proportion of budgets spent on airfares
 - **Fuel prices** – These likely affect the amount spent on fuel as well as a visitors' willingness to travel to regions generally accessed by road
 - **Goods and services prices** – Changes to prices in the goods and services used by visitors could affect their spending habits

3. These factors affect visitor spending in regions differently

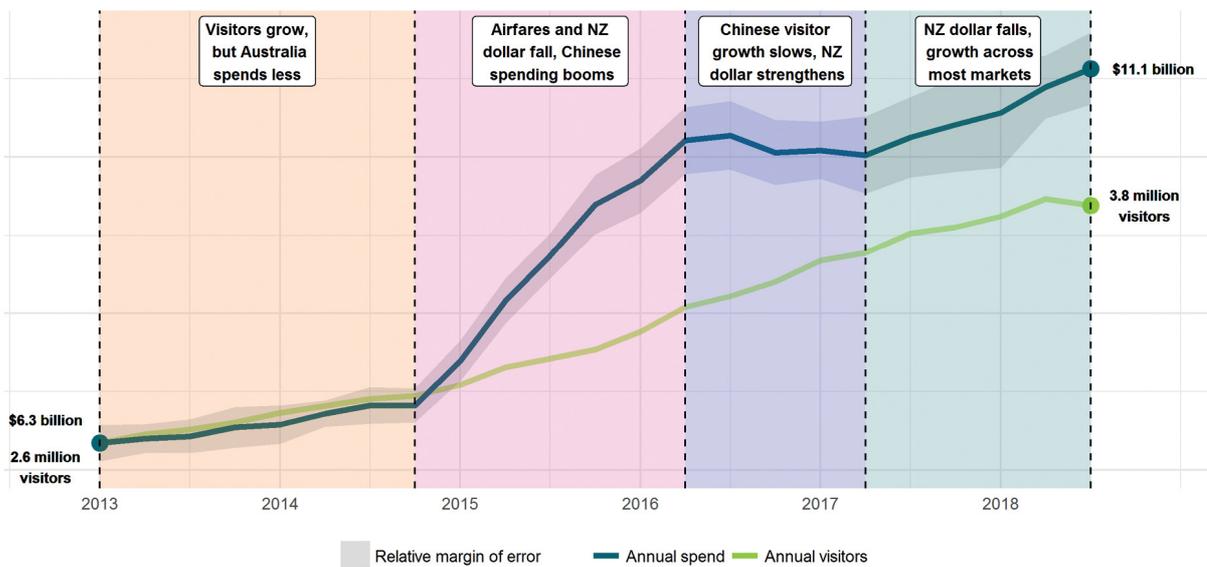
- › Regions have different compositions of visitors, so changes in a particular market may affect regions differently (e.g. changes in very short-term visitor spending may affect Auckland heavily but less so for more remote regions)
- › Changes in prices of products can also impact regions differently, as they have different spending profiles (e.g. an increase in petrol prices could have a more substantial impact on spending in more remote regions)

4. Tourism spend in New Zealand follows global trends

- › Growth in spend of Chinese visitors in New Zealand appears to follow the trend of global Chinese international tourism spend.
- › Growth in international tourism spend in Australia shows a similar pattern to New Zealand over the period.

5. Different economic trends and impacts on visitor spend were seen across four distinct periods since 2013

Figure 1: International visitor spend and visitors, 2013 to mid-2018



Source: International Visitor Survey, MBIE, International Travel and Migration, Stats NZ

Period 1: Visitors grow, but Australia spends less

March quarter 2013 – September quarter 2014 (7 quarters)

Visitors grew faster than spend due to a fall in the value of Australian dollar

- › Visitor numbers grew stronger than total tourism spend due to a fall in the average spend per visitor
- › Decreases in Australian spending were the main reason for this, offsetting growth in the Chinese and US markets
- › The decrease was mainly due to a large fall in the value of the Australian dollar
- › This fall seemed to impact Australians visiting friends and family the most, who are a major part of the Australian travel market

Period 2: Airfares and NZ dollar fall, Chinese spending booms

December quarter 2014 – March quarter 2016 (6 quarters)

Large increases in arrivals and spend per day in higher-spending markets, driven by favourable economic conditions led to record spend growth

- › Strong growth in both arrivals and average spend resulted in record spend growth
- › A fall in the value of the New Zealand dollar and lower airfare costs contributed to a large rise in spending per day

- › All main tourism markets saw large spend increases, with China doubling over the period
- › Total spending of shorter-term visitors, visitors on packages and tours, and hotel stayers grew rapidly. Spending in retail also grew strongly over the period
- › Regions containing international airports had some of the highest levels of growth, suggesting visitors spent extra in the better connected cities.

Period 3: Chinese visitor growth slows, NZ dollar strengthens

June quarter 2016 – March quarter 2017 (4 quarters)

A strong New Zealand dollar and a decrease in spending in larger markets led to a small fall in spending overall

- › Spending fell while visitors numbers increased, driven by a strong New Zealand dollar
- › A fall was seen in the largest markets, with the largest decrease being China
- › Short-term visitor spending fell, as well as retail spending, suggesting a fall in the short-stay shopping tour market
- › Less-connected regions were not as affected by the falls in spending at a national level

Period 4: NZ dollar falls, growth across most markets

June quarter 2017 – June quarter 2018 (5 quarters)

Spending grew faster than arrivals due to economic growth in many of our markets and a fall in the New Zealand dollar

- › Improvements in international economic conditions, coupled with a weakened New Zealand dollar, helped international tourism spend to grow faster than visitor numbers
- › Most markets saw a rise in visitor spend, of which emerging markets made a large contribution
- › Increased spending by short-medium stayers made a large contribution to overall growth
- › Visitor spending on food and beverage servicing grew strongly, as well as on fuel

Implications for tourism industry and policy

- › Changes to economic factors (especially exchange rates) and market composition can significantly affect tourism spend in New Zealand. Being aware of these changes is important for industry planning
- › Changes in these factors affect regions differently, meaning that some regions may not experience the full effects of changes in spend seen nationally
- › Growth in the Chinese market shows no signs of slowing, and with 2019 being the Year of China New Zealand Tourism, market share is likely to continue to increase
- › The Chinese market has been a major contributor to variation in total visitor spend and it's spending patterns and behaviour continues to change, with visitors staying longer and becoming more regionally dispersed. Additional support for Chinese tourists may become increasingly important, such as facilitating preferred Chinese payments methods such as AliPay or WePay

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1. Purpose and background

This report aims to understand the drivers behind movements in international visitor spending in New Zealand from 2013 to 2018 as measured by the International Visitor Survey (IVS), and relate this to visitor numbers over the same period.

1.1. Understanding the relationship between visitor spend and numbers

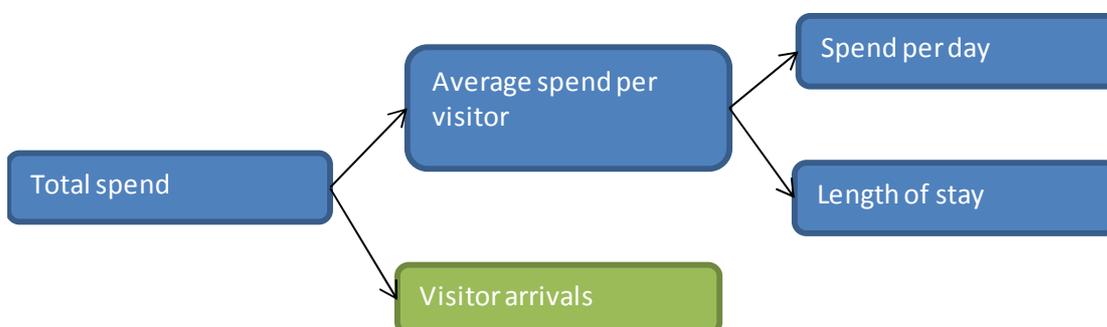
A reasonable assumption often made is that visitor spend and visitor numbers should follow each other in similar patterns across time – as the number of visitors increases, so too should the total amount of spending by those visitors. However, the reality is more complex than this.

Historically, we see that the number and spend of visitors does not always track very closely, due to the large number of factors that can affect the average spend per visitor. For the growth in spend to match the growth in visitor numbers, there would need to be no change to:

- the mix of visitors coming to New Zealand
- exchange rates
- the price of goods and services
- airfares
- incomes of visitors
- average length of stay of visitors
- the activity of visitors.

Total visitor spend is made up of the number of visitors arriving, and the average spend per visitor. In turn, the average spend per visitor is made up of the average spend per day and the length of stay. These two factors are influenced by many other factors, such as the value of the New Zealand dollar and changes in spending in a visitors own currency. Changes to either of these will result in changes to the average spend and ultimately the total spend figure.

Figure 1: Factors affecting international visitor spend



This report includes estimates of visitor spending in the home currency of the visitor. This calculation is done by creating a composite, weighted index of spending from the largest 15 markets since 2013 (which makes up around 87 per cent of all international spend), after visitor spend has been converted back into each countries' currency.

2. Trend analysis – 2013 to mid-2018

This section summarises the high-level trends seen in the five-and-a-half-year period between the beginning of 2013 and mid-2018.

2.1. International visitor spend vs visitor numbers

2.1.1. Over the period, international visitor spend grew at a slightly higher rate than visitor numbers

The average growth for international visitor spend was slightly higher than visitor numbers over the period from March 2013 to June 2018. International tourism spending grew 69 per cent when adjusted for inflation, at a rate of ten per cent per year. This was slightly higher than the 48 per cent increase in visitor numbers, which grew at a rate of seven per cent per year.

Table 1: Growth of international visitor numbers and spend, 2013 to mid-2018

Measure	Total growth rate (%)	Compound annual growth rate (%)
International visitor spend ¹	75	11
Inflation-adjusted international tourism spend ^{1,2}	69	10
Number of international visitors ³	48	7

1 Source: International Visitor Survey, MBIE.

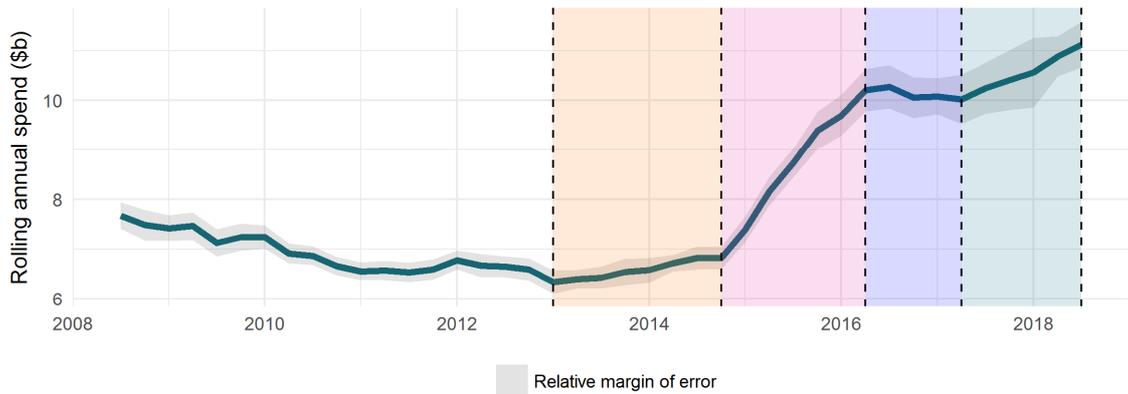
2 Spend adjusted by Consumer Price Index, Stats NZ.

3: Source: International Travel and Migration, Stats NZ.

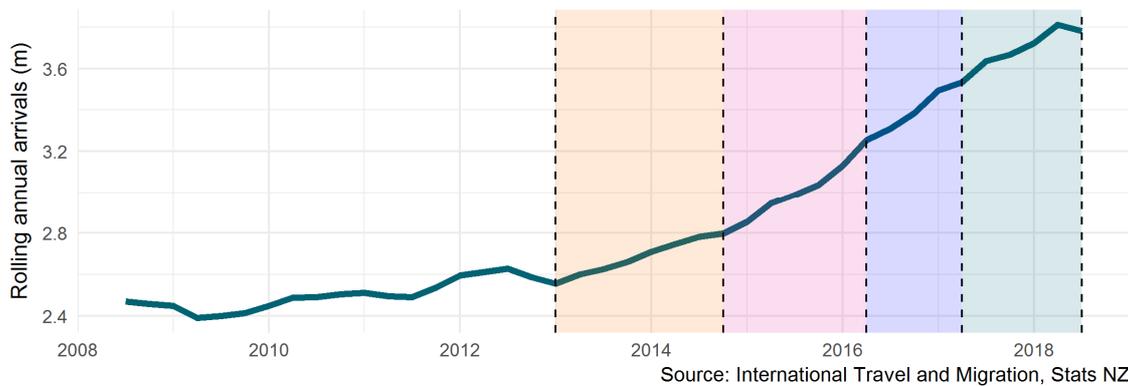
2.1.2. However, international visitor spend varies more in the shorter term

International visitor numbers to New Zealand began to grow strongly from the beginning of 2013, and showed a relatively consistent growth (generally between five and ten per cent per year) through to mid-2018. In comparison, international visitor spend showed more variation over time, including a period of extremely high growth and a period of slight decline. Four distinct periods of visitor spend growth were identified, and are explained in more detail in Section 3.

Figure 2: International visitor spend and visitor numbers



Source: International Visitor Survey, MBIE



Source: International Travel and Migration, Stats NZ

2.2. Exchange rates

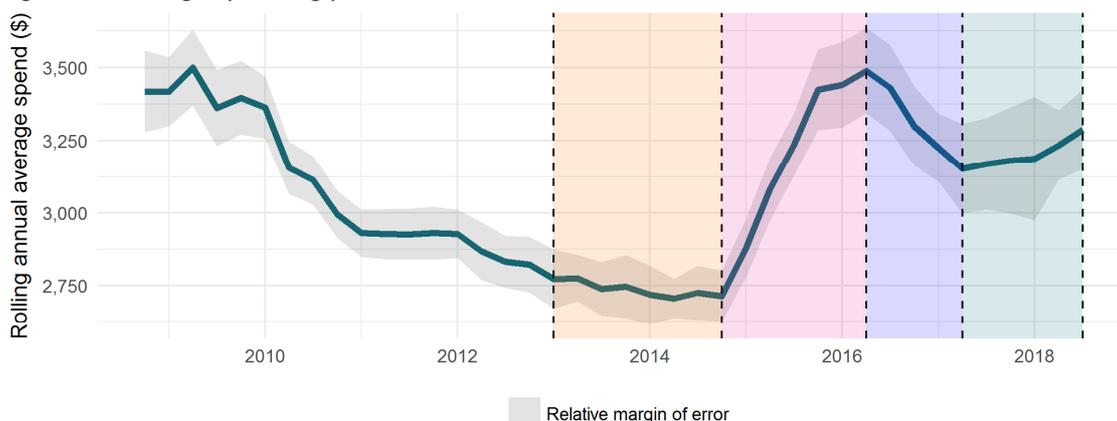
2.2.1. The value of the New Zealand dollar greatly affects the spending of visitors

Exchange rates have a significant effect on a visitor's average spend per day, and therefore the amount a visitor spends per trip (it can also impact length of stay). The value of the New Zealand dollar (when compared to the visitor's home currencies) has a strong (inverse) relationship with the average spending per visitor.

The nominal Trade Weighted Index (TWI)¹, a proxy for the value of the New Zealand dollar, is shown below along with the average spending per international visitor.

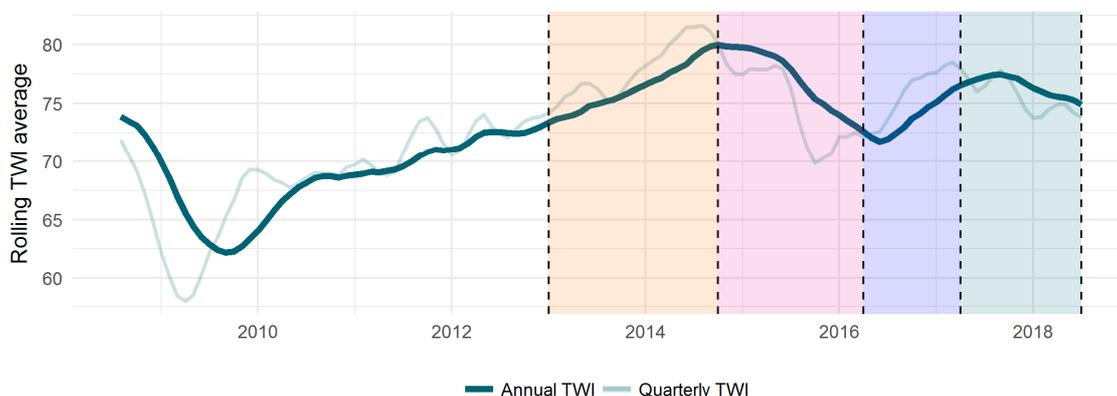
¹ A measure of the value of the New Zealand dollar against the currencies of other countries based on the amount of trade between New Zealand and the currency zone

Figure 3: Average spending per international visitor to New Zealand



Source: International Visitor Survey, MBIE

Figure 4: New Zealand Trade Weighted Index



Source: Reserve Bank of New Zealand

One of the reasons for the strong relationship could be because many visitors come to New Zealand on a fixed budget. This budget is likely based on the currency in their home country, so if the value of the New Zealand dollar falls relative to that currency, their budget would be worth more New Zealand dollars and have more purchasing power. These extra funds could then be used either by spending more per day while in New Zealand, or extending their trip (however this could be more unlikely because of other factors such as not being able to get more time off work, flights already booked in advance etc.)

When looking at each market, a strong relationship generally exists between average spending and the exchange rate between the New Zealand dollar and their home currency. More in-depth analysis of the specific trends of exchange rates is described in Section 3.

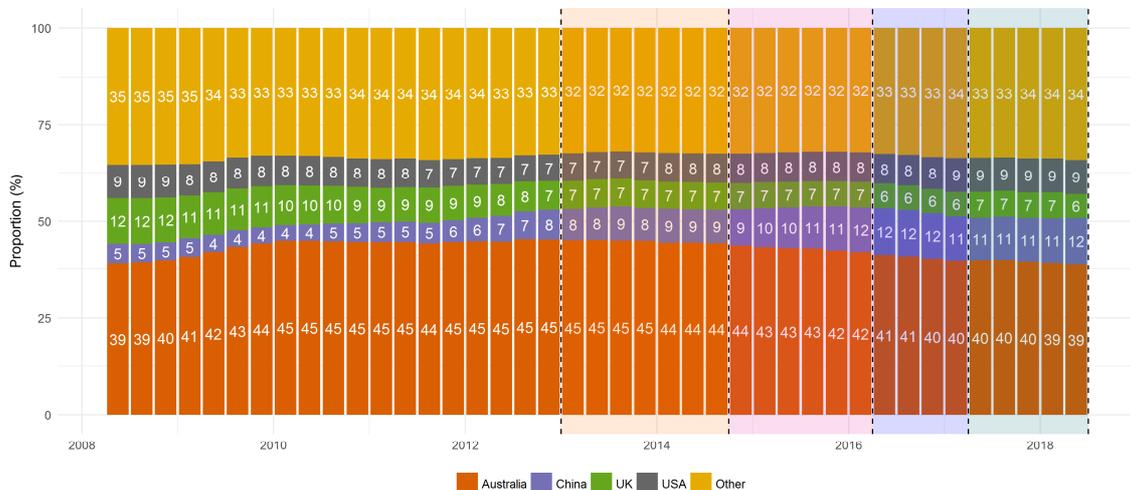
2.3. Mix of visitors

2.3.1. A change in the mix of visitors contributed to differences in spend and visitor numbers

Another reason for the short-term differences in growth between spend and visitor numbers was a change in visitor market composition. The Australian market has historically made up the largest portion of all international visitors to New Zealand. Although the number of Australian visitors increased from 2013 to mid-2018, it did not increase as fast as other

markets. At the beginning of 2013, Australians made up 45 per cent of all international visitors to New Zealand. By the year ended June 2018, this was down to 39 per cent of visitors, a fall of six percentage points.

Figure 5: International visitors to New Zealand, main markets, proportion of total

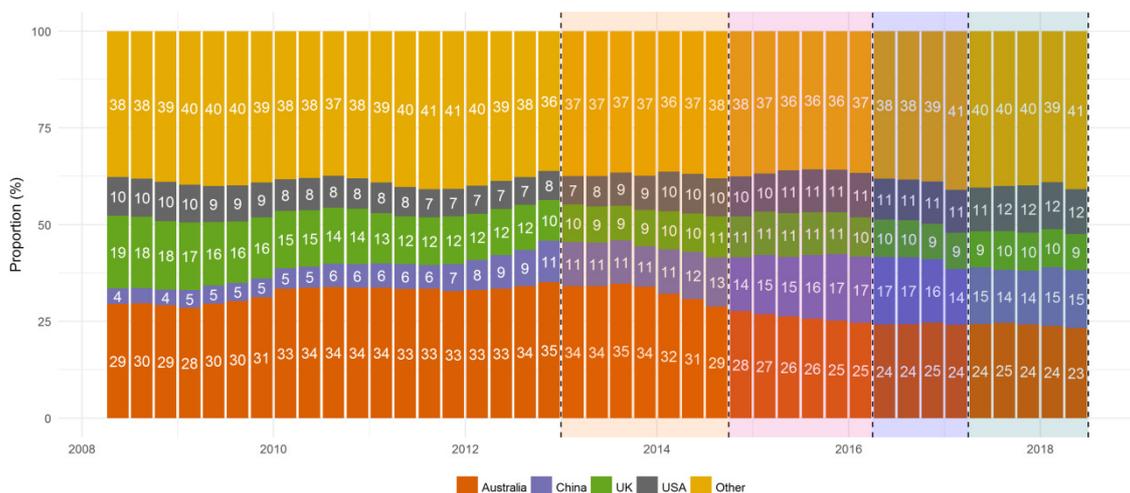


Source: International Travel and Migration, Stats NZ

Australian visitors spend a lot less on average (largely due to a shorter length of stay) than visitors from other countries, with the average spend for visitors from China, the US, the UK and Germany over double that of Australian visitors for the year ending June 2018.

Because of the low average spend and large increases in visitors from higher-spending markets, the Australian market share of spend fell from 35 per cent to 23 per cent, down 12 percentage points over the period.

Figure 6: International visitor spend, main markets, proportion of total



Source: International Visitor Survey, MBIE

On the other hand, the proportion made up of higher-spending markets, such as China and the US has increased over this time. Changes towards these markets have led to increases in the average spending per visitor, particularly in the period of record growth where China and the US together made up 28 per cent of spending (3 per cent more than Australia).

The Government and tourism sector have worked strategically towards growing tourism value faster than volume, targeting higher-value visitors and segments. This work has helped New Zealand attract greater proportions of these higher-spending markets and has helped reduce the Australian market share. This work has also included targeting certain market segments,

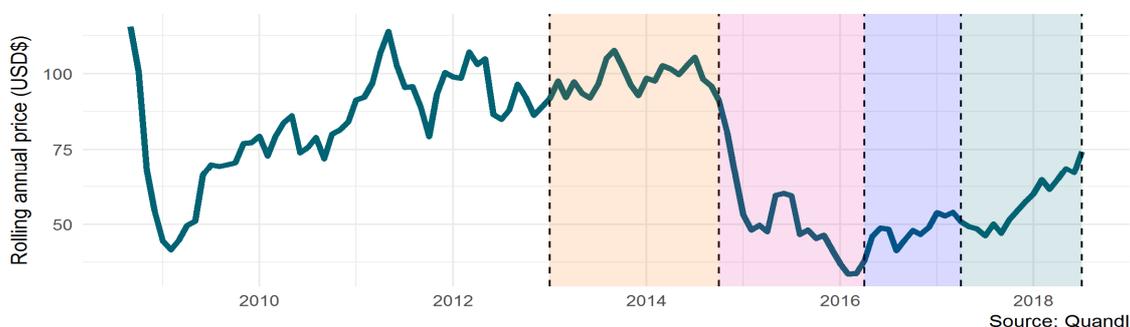
such as an increasing proportion of free and independent travellers (FITs) from China. More in-depth analysis of the specific trends of visitor mix is described in Section 3.

2.4. Other economic factors

2.4.1. Crude oil prices directly affects visitors in more than one way

The price of crude oil directly affects the cost of aviation fuel (affecting airfares) and retail fuel prices. Therefore changes in the price can significantly affect tourism spend and to an extent, visitor numbers. In the second period, the price of oil fell by nearly two thirds in US dollars which ultimately resulted in a drop in aviation fuel (and therefore airfares) and fuel prices.

Figure 7: Crude oil futures



2.4.2. A fall in airfares has most likely lead to increased visitor numbers and spend

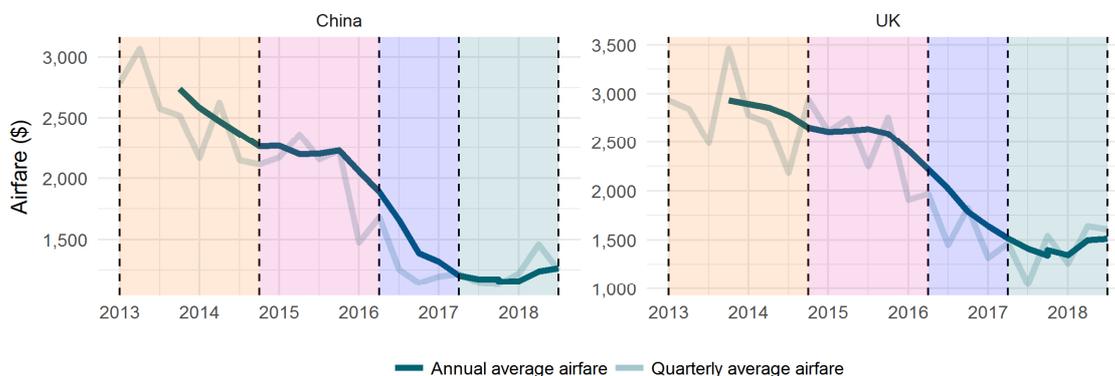
The fall in the price of crude oil, as well as increased airline competition, has seen airfares drop heavily over time. The average airfare of Chinese visitors has fallen by about a half since the beginning of 2013, from just under NZD\$3,000 to just under NZD\$1,500 in June 2018.

As airfares decrease, it is likely that visitors will spend more, as they will have extra money available to them that could be used either by spending more per day, or extending their stay. Cheaper flights could also have attracted visitors who may not otherwise have travelled to New Zealand and could be a reason for visitor numbers growing faster in certain periods. This could also affect the composition of visitors as the further a country is away from New Zealand, the more it will be impacted by changes in airfares.

It is worth noting that airfare prices themselves will not impact the estimate of visitor spending from the International Visitor Survey. This is because airfares are excluded from the measure².

² <https://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/ivs/methodology>

Figure 8: International airfares between New Zealand, China and the UK



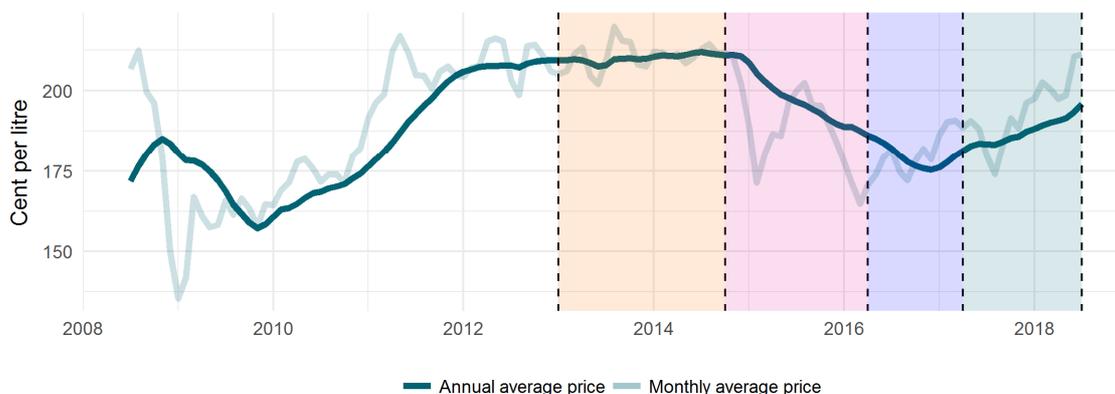
Source: Sabre

2.4.3. Fuel prices may affect a visitor’s willingness to drive in New Zealand

Retail fuel prices at the pump contributes directly to costs for self-driving visitors in New Zealand, and indirectly to those using ground transport services such as taxis, buses, guided tours or trains. Higher prices could lead to an increased proportion of the budget spent on fuel, meaning a lower proportion on other goods and services – and vice versa.

Fuel prices may also affect a visitor’s willingness to drive in New Zealand. This could mean that regions which are usually accessed by car – such as Gisborne or Southland – may have reduced visitor spend if fuel prices are high.

Figure 9: Average discounted retail fuel prices in New Zealand



Source: Weekly fuel price monitoring, MBIE

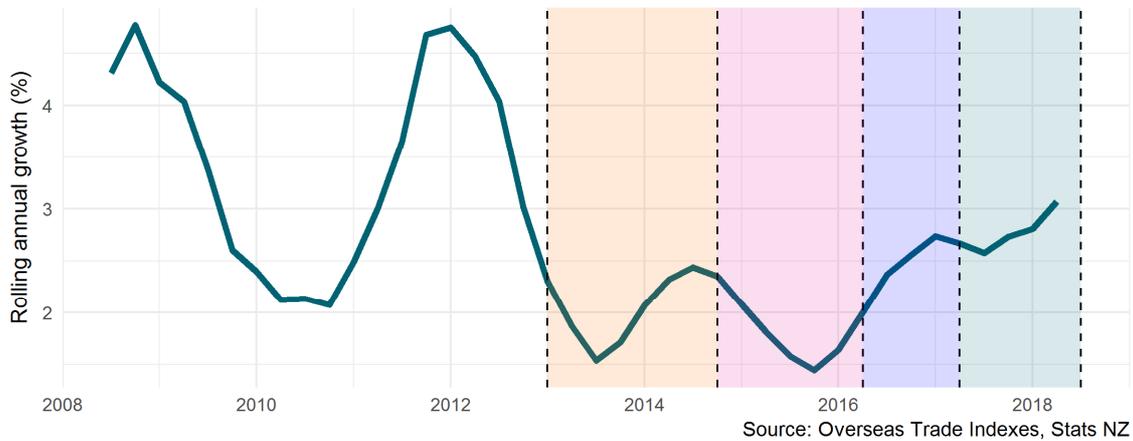
2.4.4. Price inflation for goods and services used by visitors could contribute to increases in spending

Visitors will be affected by price changes in such goods and services as food, transport, accommodation, etc. Price inflation has a direct impact on the prices paid for goods and services, and hence total visitor spending. Although some goods may not affect visitor spending directly, they may affect it indirectly. There may be a substitution effect – if a specific good or service is relatively more expensive than others, it may lead to a change in visitor behaviour as visitors purchase more of the cheaper option. For example, if average restaurant prices increase, visitors may wish to purchase from a supermarket instead.

The index of travel service prices from the Overseas Trade Index export series is the most appropriate measure of the types of goods and services that a typical visitor may purchase.

While there has been a general growth trend in prices over the five and a half year period, the growth rates vary between the four periods.

Figure 10: Index of travel service prices from the Overseas Trade Index export series, annual percentage growth rate



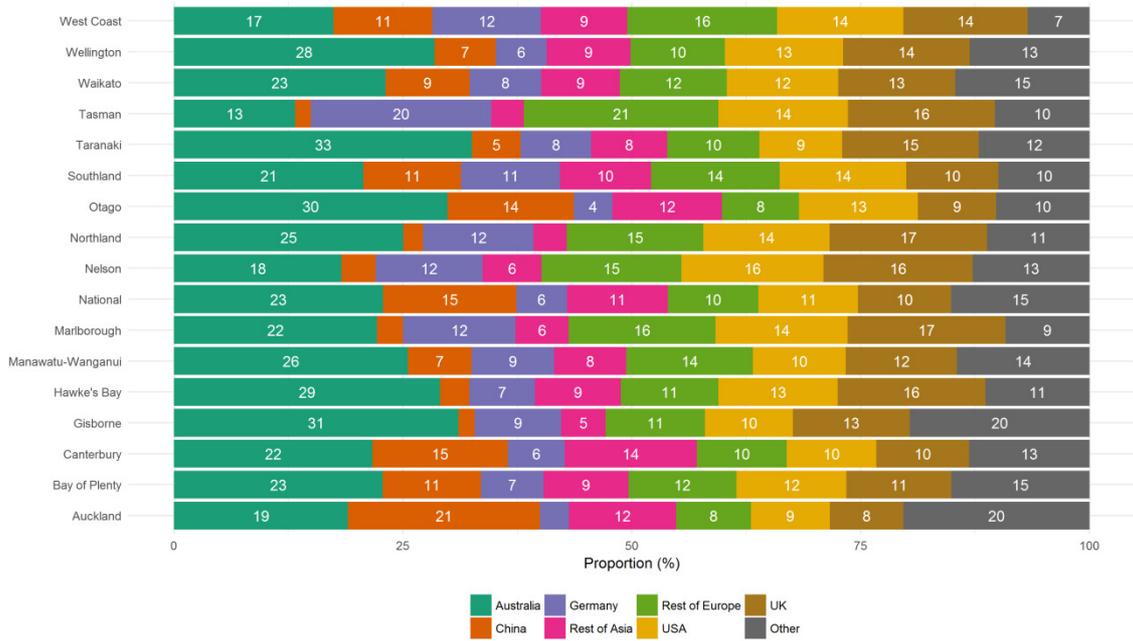
2.5. Regions

2.5.1. A change in the mix of visitors affects regions differently

Each region has a different profile of visitors, and each region has a different tourism offering meaning visitors are likely to spend more per day in some regions than others. This means that national-level growth in overall international visitor spend will not necessarily lead to a corresponding increase in any given region.

Auckland, for example, has a proportionately higher amount of spend from Chinese visitors compared with the rest of the country. An increase in the number Chinese visitors could therefore disproportionately affect total spend in Auckland. Likewise Tasman, Nelson, Marlborough and the West Coast have relatively greater spending from German visitors and visitors from the rest of Europe, and could be affected more greatly by changes in these markets.

Figure 11: Proportion of international visitor spend by country and region, year ended June 2018



Source: Monthly Regional Tourism Estimates, MBIE

2.5.2. A regions' goods and services offering will affects tourism spend

Each region has a different profile of goods and services available, which will affect what visitors spend their money on in the region.

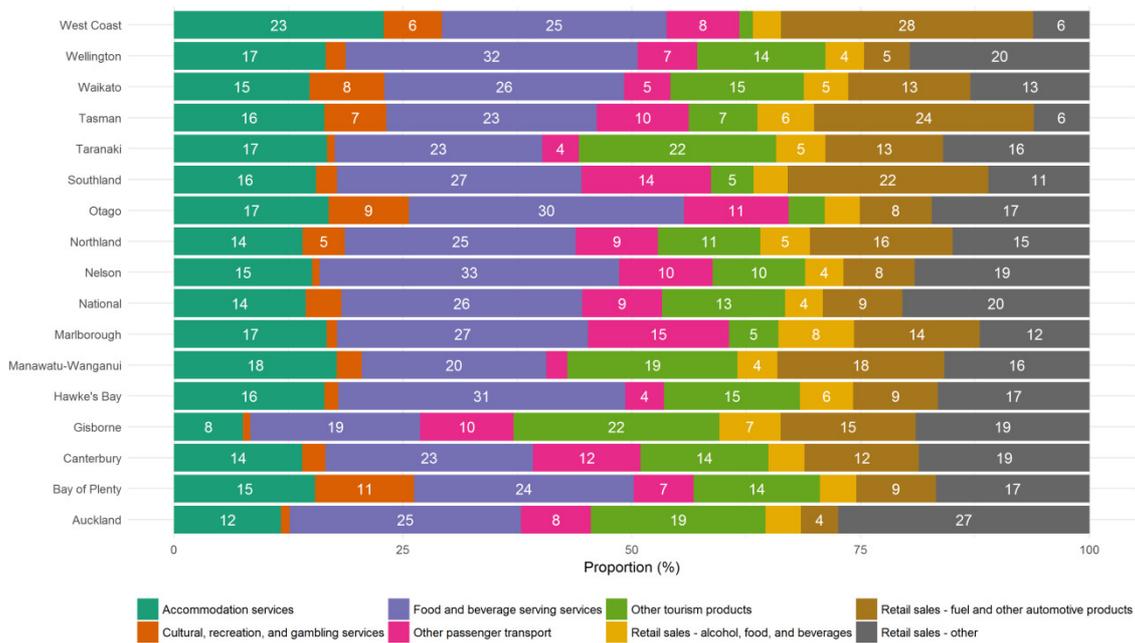
In the year ending June 2018, Auckland received a relatively high proportion of spend in the 'retail sales – other' category of tourism spend but a relatively smaller proportion in 'retail sales – fuel and other automotive products' compared to national figures. This likely means visitors do a lot more shopping in Auckland – something that could be associated with 'disposable' spending rather than more necessary goods and services, such as fuel and accommodation. An example of this would be duty-free shopping in Auckland airport which can involve substantial amounts of spend.

Regions with higher amounts of spending on fuel are more likely to be affected by changes in fuel prices. This category could be more prevalent in these regions because of a number of factors, such as:

- petrol being more expensive in the region
- a higher proportion of visitors self-drive in the region
- no large airport (i.e. visitors are more likely to drive to reach these regions)
- a lack of opportunity for spending on other products.

Regions such as West Coast, Tasman and Southland receive the highest proportion of spending on fuel and contain similar characteristics, such as not having an international airport, low population densities (they are three out of the lowest four in the country) and a high amount of visitors from Germany and the rest of Europe (who have a low spend per day).

Figure 12: Proportions of international visitor spend by goods and services in regions year ended June 2018



Source: Monthly Regional Tourism Estimates, MBIE

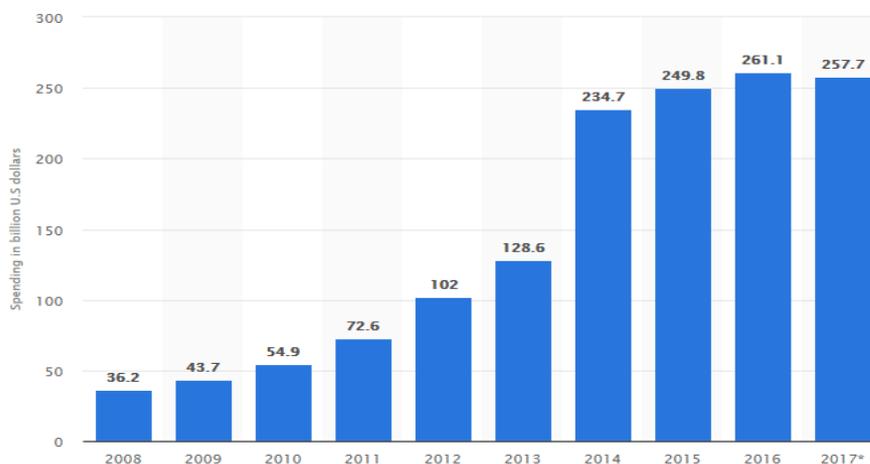
2.6. Global trends

2.6.1. Chinese international tourism spend expected to grow

Global international tourism revenue totalled USD \$1.34 trillion in 2017³. The Chinese market is the largest outbound tourism market, double that of the US (the next largest market), and makes up over 20 per cent of the total market.

However, the amount spent by the Chinese market fell by around USD \$3.4 billion (down two per cent) in 2017, compared with 2016. This, along with the huge growth a few years before forms a pattern that is very similar to what has been observed in Chinese spend in New Zealand since 2013.

Figure 13: Global international tourism spend of Chinese visitors (source: Statista)



³ <https://www.statista.com/statistics/273123/total-international-tourism-receipts/>

2.6.2. The spend pattern for Australia is similar to New Zealand

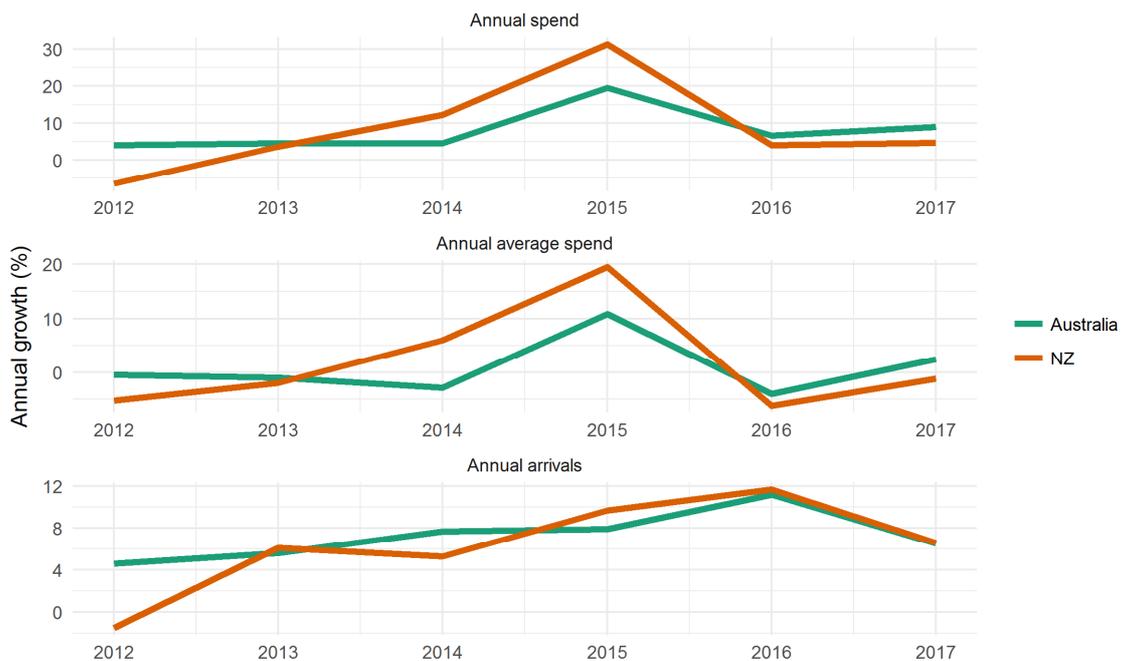
International visitor spend in Australia and New Zealand follow a similar pattern between 2012 and 2017. They also both have high amounts of Chinese, UK and US visitors – typically high-spending markets.

In 2015, New Zealand saw significant growth in international spending, similar to Australia. However, New Zealand showed a larger increase, which is likely due to higher growth in Chinese visitor numbers than Australia. As Chinese visitors tend to have a higher average spend, this could also have contributed to the higher overall growth in average spend.

The spend pattern was also similar for the year ending 2016 where growth rate of spend slowed significantly in both countries. This was due to a fall in average spend seen in both countries, even though visitor number growth remained strong.

The Chinese market was the likely contributor to these movements. There were similar spend patterns in both countries, with a huge growth in spend in 2015 and slowed growth in 2016 (due to a fall in average spend).

Figure 14: Australia and New Zealand visitor spend, average spend and visitor number growth



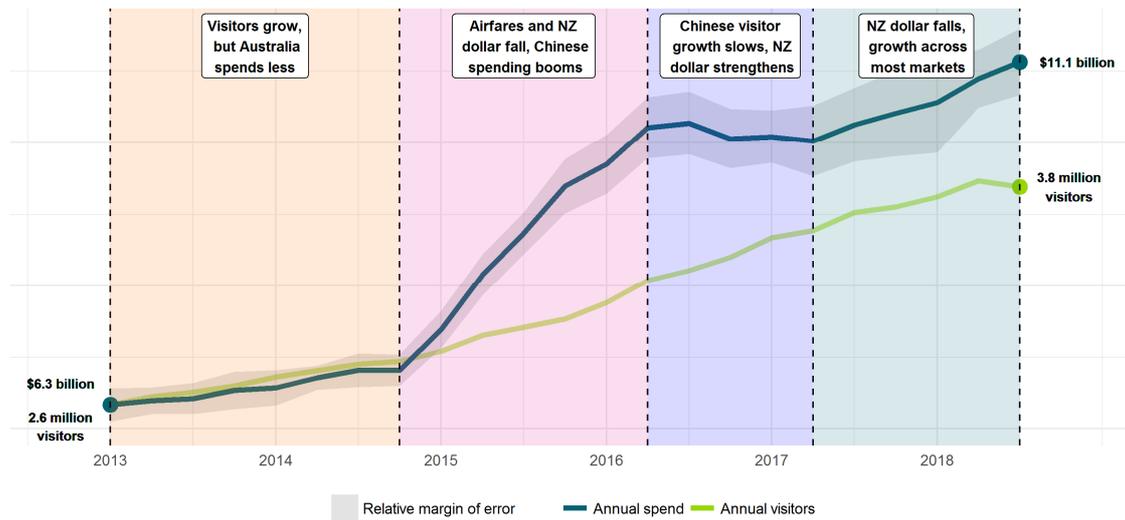
Source: International Visitor Survey, MBIE; International Visitor Survey, Tourism Research Australia

3. Period analysis

Four distinct periods within the analysed period have been identified, each between four and seven quarters in length. Different economic trends and other factors such as a change in the mix of visitors have been seen across the four periods. However, within each period, there seems to be some similarities that have caused the specific patterns.

The periods are summarised below and this section explores each individual period:

- **Period 1:** Visitors grew faster than spend due to a fall in the value of Australian dollar
- **Period 2:** Large increases in arrivals and spend per day in higher-spending markets, driven by favourable economic conditions led to record spend growth
- **Period 3:** A strong New Zealand dollar and a decrease in spending in larger markets led to a small fall in spending overall
- **Period 4:** Spending grew faster than arrivals due to economic growth in many of our markets and a fall in the New Zealand dollar

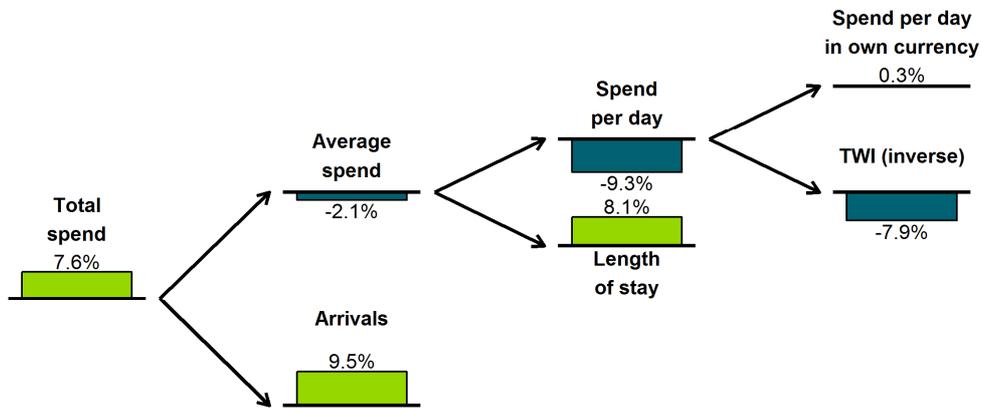


Source: International Visitor Survey, MBIE, International Travel and Migration, Stats NZ

3.1. Period 1: Visitor numbers grow, but Australia spends less

March quarter 2013 – September quarter 2014 (7 quarters)

Figure 15: Factors contributing to changes in international tourism spend, Period 1

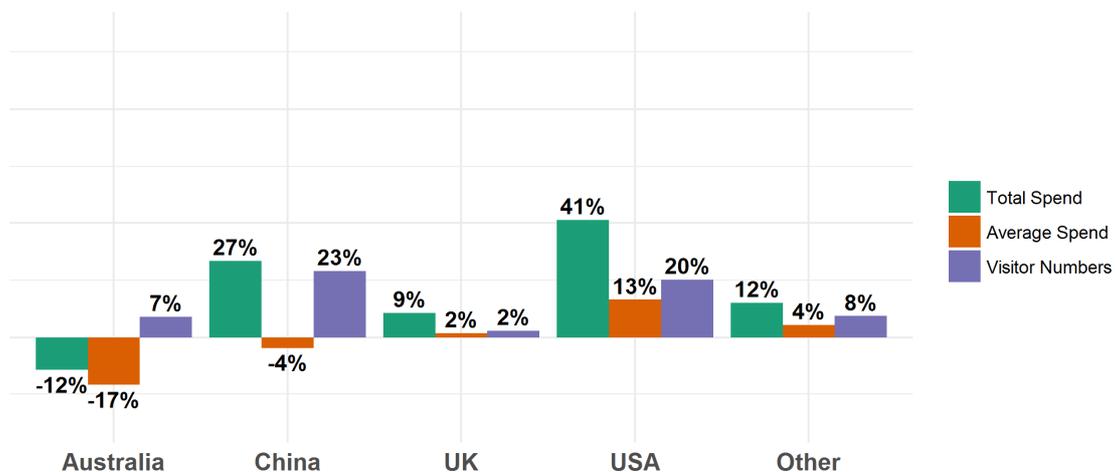


Source: International Visitor Survey, MBIE; International Travel and Migration, Stats NZ; Reserve Bank of New Zealand

Visitors grew faster than spend due to a fall in the value of the Australian dollar

- Visitor numbers grew stronger than total tourism spend due to a fall in the average spend per visitor
- Decreases in Australian spending were the main reason for this, offsetting growth in the Chinese and US markets
- The decrease was mainly due to a large fall in the value of the Australian dollar
- This fall seemed to impact Australians visiting friends and family the most
- Spending in the regions mostly tracked the spending at a national level

Figure 16: International visitor spend, average spend and visitor number growth, Period 1



Source: International Visitor Survey, MBIE; International Travel and Migration, Stats NZ

3.1.1. Visitor numbers grew stronger than total tourism spend due to a fall in the average spend per visitor

Visitor numbers increased significantly from the start of this period, up 9.5 per cent, following several years of relatively slow growth. International visitor spending didn't quite match this rate, growing 7.6 per cent (up \$480 million) over the period.

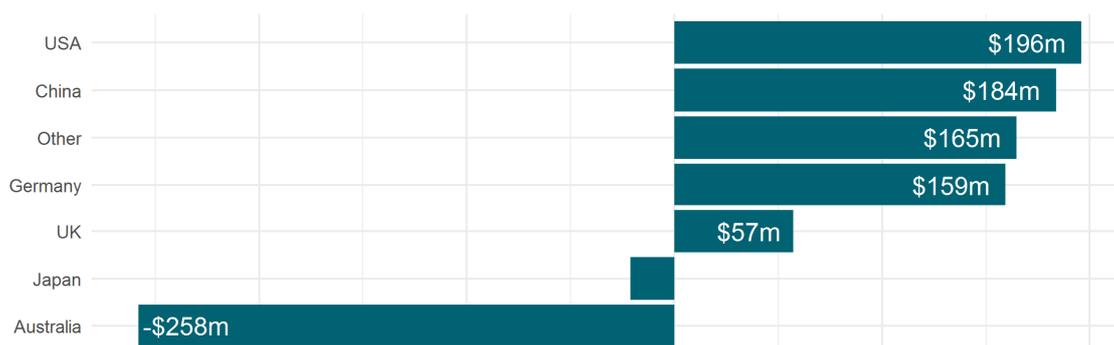
This difference was due to a slight fall in the average spending per visitor (down 2.1 per cent) – though this was not statistically significant. This fall was driven by a fall in the average spending per day of visitors, although offset somewhat by a rise in the average length of stay.

3.1.2. Decreases in Australian spending were the main reason for this, offsetting growth in the Chinese and US markets

Spending grew overall due to increased visitor numbers in some larger markets

Spending rose 7.6 per cent over the period, due to large increases in in the Chinese and US markets. The Chinese market grew 27 per cent (up \$180 million) over the period, mainly due to a 23 per cent rise in visitors. The US market grew 41 per cent (up \$200 million) also due to a large rise in arrivals (20 per cent) but further helped by a 13 per cent rise in average spending.

Figure 17: International visitor spend growth by country, Period 1



Source: International Visitor Survey, MBIE

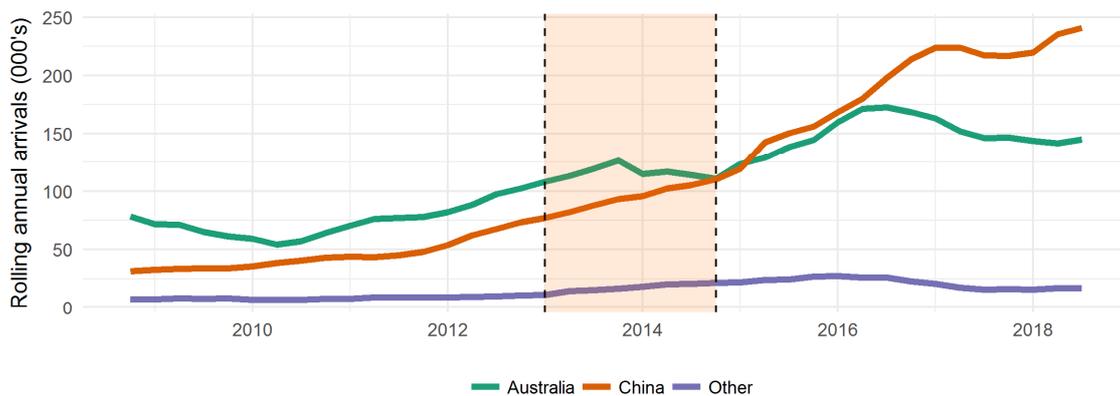
Increased flights between China and New Zealand helped visitor numbers rise

Additional flights and air routes, leading to greater air capacity from China, is a likely contributor to the rise in arrivals. Some of the additional flights that began in this period included:

- China Southern Airlines added additional flights between Guangzhou and Auckland/Christchurch
- China Airlines increased flights between Taipei and New Zealand
- China Southern Airlines started flying Boeing Dreamliners on its Guangzhou– Auckland route. It provided two additional return flights to Auckland and one to Christchurch during the 2014 Chinese New Year (February) celebrations. It increased its Guangzhou–Auckland service from seven to ten weekly flights.

This resulted in a 43 per cent rise over the period in Chinese visitors arriving direct from China, whereas Chinese visitors arriving direct from Australia only increased two per cent.

Figure 18: Chinese international visitor numbers to New Zealand, by country of previous port



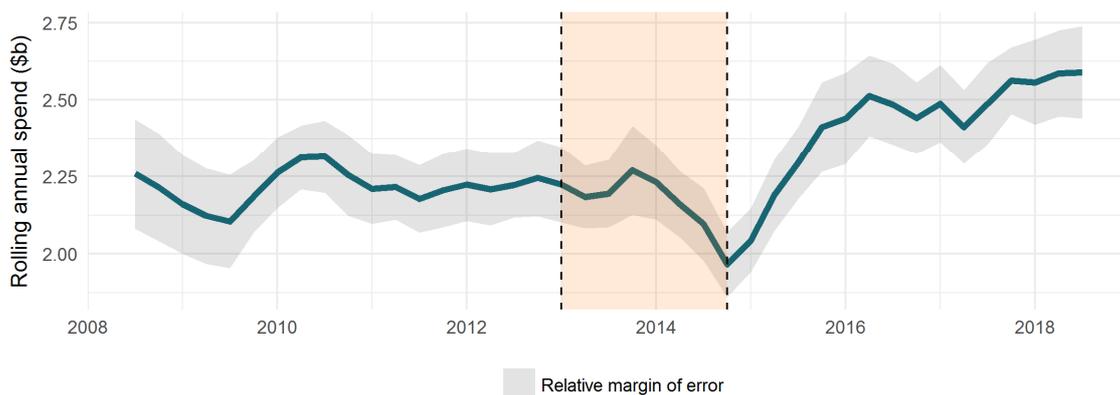
Source: International Travel and Migration, Stats NZ

The US market also saw additional flights added as Hawaiian Airlines began direct services between Honolulu and Auckland⁴ - but there was not enough capacity growth to drive the overall rise in US visitors over that period. The rise in spending and arrivals of US visitors may have been supported by the then-recent release of the first two Hobbit movies (released December 2012 and December 2013). One in five visitors took part in some form of film-related tourism in 2014, with The US and some European countries seeing surges in spending likely due in part to the release of these films⁵.

The growth was moderated by a fall in Australian average spend

The increases in the Chinese and the US markets were offset by a 12 per cent fall in spending in the Australian market (down \$260 million). Although visitor numbers increased seven per cent in the market, a fall of 17 per cent in average spending per visitor caused spending to fall overall. This fall was driven by a fall in average spending per day, down \$28 over the period.

Figure 19: Australian international visitor spend



Source: International Visitor Survey, MBIE

Australia is historically by far the largest spending market in New Zealand, and its market share had been steadily increasing up to this period. Small changes in spending in the market have a large effect on overall international spending in New Zealand and the fall in this period was the main reason arrivals grew faster than spend overall. This resulted in Australia's market share of

⁴ http://archive.stats.govt.nz/browse_for_stats/industry_sectors/Tourism/tourism-satellite-account-2016/summary-results.aspx

⁵ <https://www.ft.com/content/ffc9c362-8a59-11e4-9b5f-00144feabdc0>

spending falling from 35 per cent at the beginning of the period to 29 per cent by the end of the period.

3.1.3. The decrease was mainly due to a large fall in the value of the Australian dollar

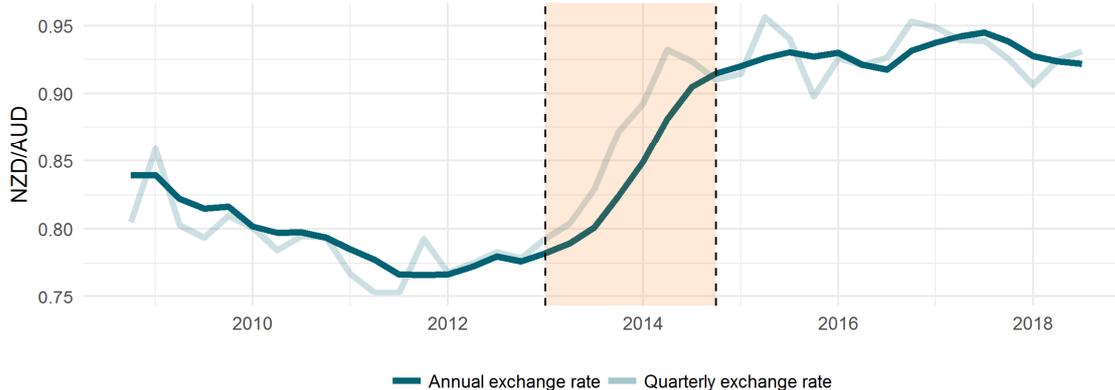
A fall in the value of the Australian dollar led to a fall in Australian spending

A fall in the Australian dollar against the New Zealand dollar was the main reason behind a fall in the average spend per day, resulting in a fall of around \$350 on average per visitor over the period (down 17 per cent).

The quarterly NZD/AUD exchange rate rose around 15 per cent over the period, mostly due to a drop in the value of the Australian dollar. This resulted in a decrease in the purchasing power of Australians when visiting New Zealand.

This shift in the Australian dollar against the New Zealand dollar was likely due to the Reserve Bank of Australia cutting interest rates, a decreased global demand for some of Australia's largest exports (including iron ore, Australia's largest export) and a weakened domestic economy⁶.

Figure 20: New Zealand/Australian exchange rate



Source: Yahoo Finance

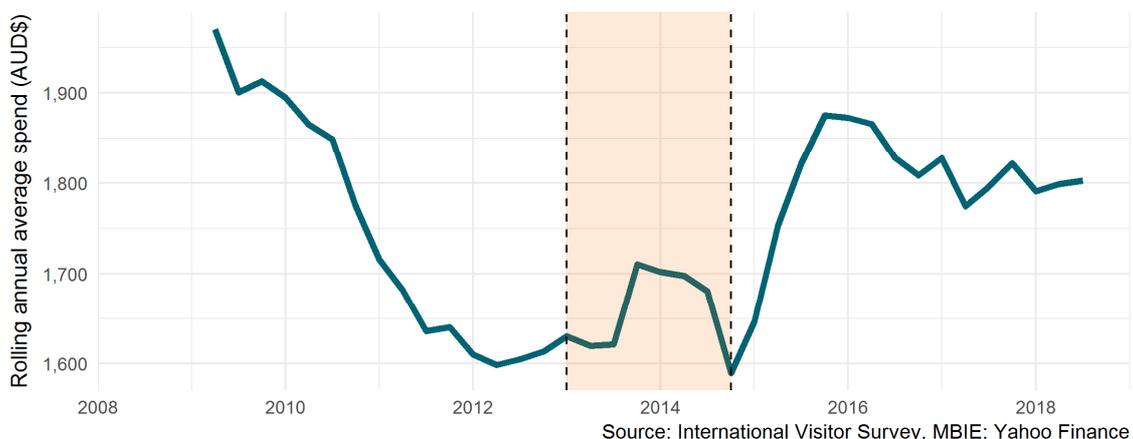
The Trade Weighted Index (TWI) also increased around eight per cent over the period, mainly thanks to this fall in the Australian dollar. The exchange rates for Australia, China and the US make up over half of the index as these are the countries New Zealand does the most trade with (they are also the three highest tourism spend markets). Exchange rates between the Chinese Yuan and US dollar against the New Zealand dollar remained quite flat, however as the Australian dollar makes up the most substantial market proportion in the TWI, this is the main reason for the rise in the TWI.

However Australian spending in their own currency showed little change

When looking at spending by the Australian market in Australian dollars, there was a much smaller fall of around AUD\$40 per visitor over the period, down only three per cent. This suggests that most of the drop in spending from the Australian market may have been caused by the weakened Australian dollar, and only slightly by a change in Australian dollar spending levels.

⁶ <https://www.marketpulse.com/20140101/audusd-2013-review/>

Figure 21: Australian international visitor spend, in Australian dollars

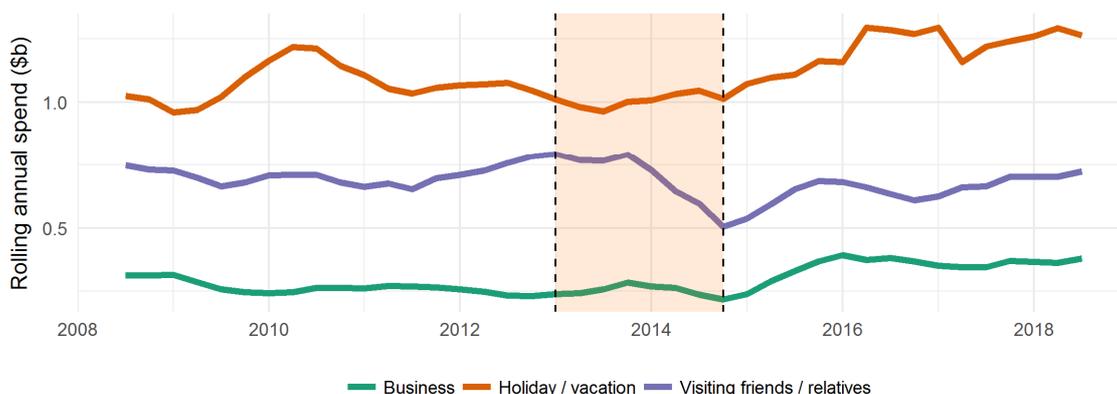


3.1.4. This fall seemed to impact Australians visiting friends and family the most

Spending by tourists coming to New Zealand to visit friends and relatives fell \$420 million over the period, a drop of 22 per cent.

The Australian market made up over half of all spending in this category, likely due to many Australians having friends and relatives in New Zealand, and the shorter, cheaper flights. Australian spending in this category fell \$290 million over the period (down 36 per cent), making up over two-thirds of the total fall.

Figure 22: Australian international visitor spend, by purpose



Those visiting friends and relatives spend a lot less on average per visit than other visiting purposes (e.g. those arriving for a holiday/vacation) and also a lot less per day. This may be because they are more likely to visit New Zealand on a budget and so would be more affected by a weakened Australian dollar.

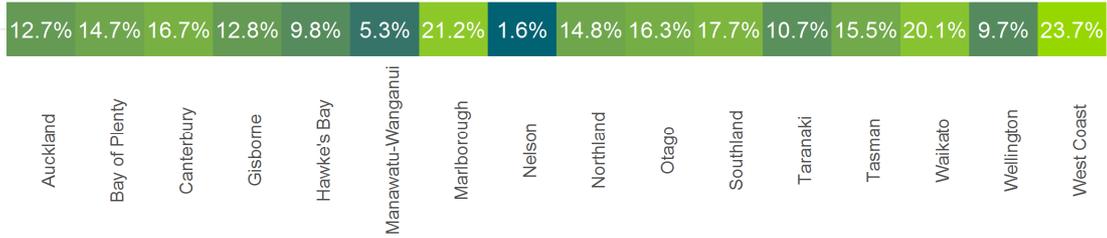
It is possible this group would take measures to keep costs down such as staying in cheaper accommodation, e.g. staying (for free) with friends or relatives, holiday homes, etc. This could explain why spending by visitors who said their main accommodation type was ‘hosted’ also fell a lot over the period, down \$350 million.

3.1.5. Spending in the regions mostly tracked the spending at a national level

Spending in the regions followed the same pattern as the national level for the most part, however the Nelson region showed lower growth (up 1.6 per cent) than other regions.

With Australian spending falling over this period, it would be expected that regions with higher proportions of Australian spending (particularly those that with a high proportion that visit friends and family) to be most affected. When looking at those regions with a growth rate of less than ten per cent (Nelson, Manawatu-Wanganui, Hawke’s Bay and Wellington), all but one (Nelson) had a higher proportion of spending by Australians than the average over this period.

Figure 23: Regional international visitor spend growth, Period 1

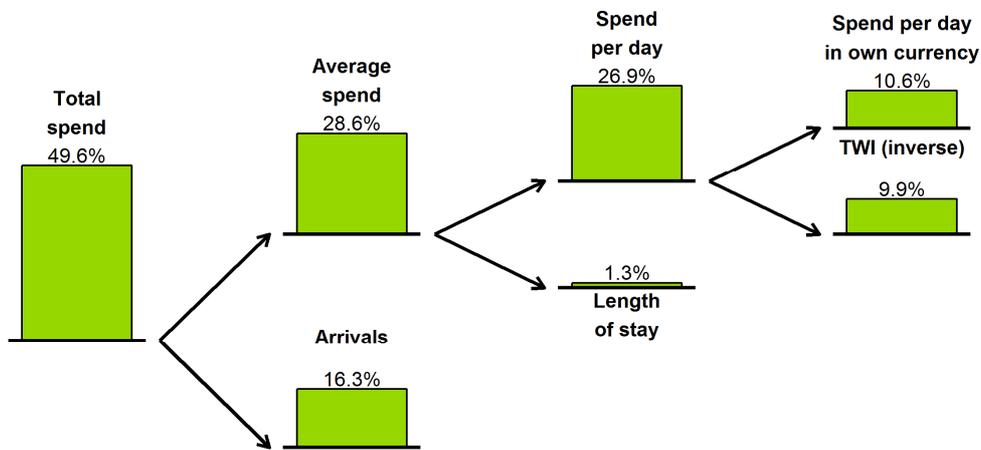


Source: Monthly Regional Tourism Estimates, MBIE

3.2. Period 2: Airfares and NZ dollar fall, Chinese spending booms

December quarter 2014 – March quarter 2016 (6 quarters)

Figure 24: Factors contributing to changes in international tourism spend, Period 2

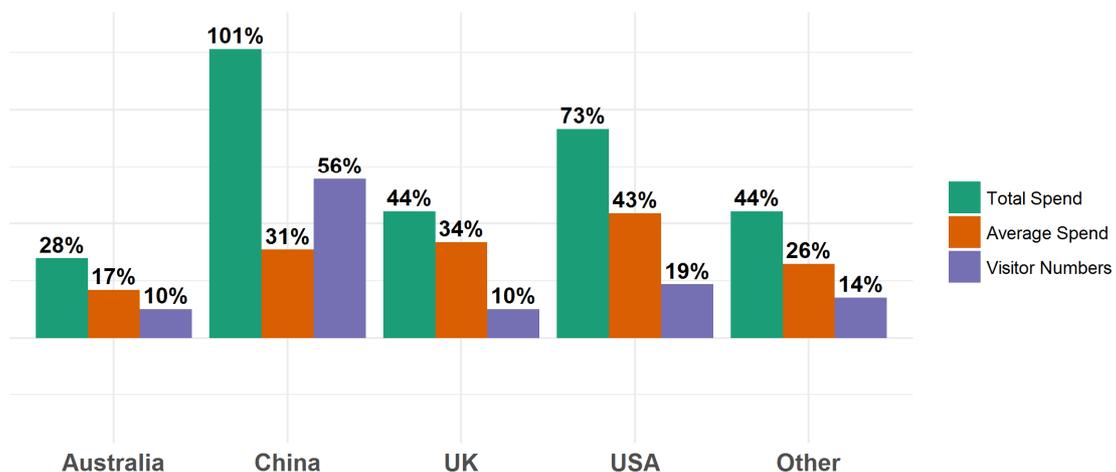


Source: International Visitor Survey, MBIE; International Travel and Migration, Stats NZ; Reserve Bank of New Zealand

Large increases in visitor numbers and spend per day in higher-spending markets, driven by favourable economic conditions led to record spend growth

- Strong growth in both visitor numbers and average spend resulted in record spend growth
- A fall in the value of the New Zealand dollar and lower airfare costs contributed to a large rise in spending per day
- All main tourism markets saw large spend increases, with China doubling over the period
- Total spending of shorter-term visitors, visitors on packages and tours, and hotel stayers grew rapidly. Spending in retail also grew strongly over the period
- Regions containing international airports had some of the highest levels of growth, suggesting visitors spent extra in the better connected cities

Figure 25: International visitor spend, average spend and visitor number growth, Period 2



Source: International Visitor Survey, MBIE; International Travel and Migration, Stats NZ

3.2.1. Strong growth in both visitor numbers and average spend resulted in record spend growth

International tourism spending saw record levels of growth in this period. Spending increased \$3.4 billion, up 49.6 per cent over the period. This increase was the result of strong growth in both arrivals (up 16.3 per cent over the period) and average spending (up 28.6 per cent over the period).

The growth in international visitor spend from late 2014 to 2016 represented a step change in visitor spending. Visitor spending jumped from a level of around \$2.6 billion in March quarter 2014, to around \$4 billion in March quarter 2016.

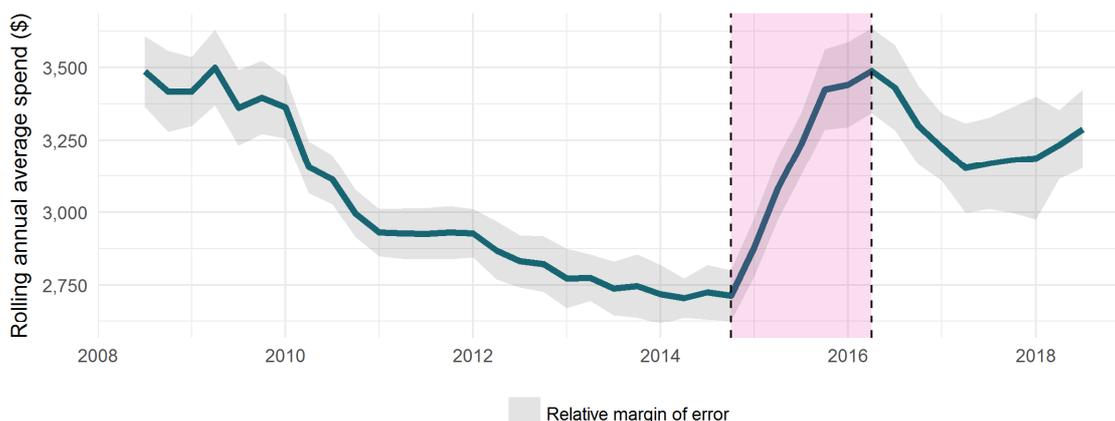
3.2.2. A fall in the value of the New Zealand dollar and lower airfare costs contributed to a large rise in spending per day

Spend per day jumped \$40 over the period, helped by a weakened New Zealand dollar

The growth in average spending was mostly due to an increase in spending per day. Visitors spent an extra \$40 on average per day at the end of the period compared with the start (\$190 compared with \$150).

This sharp rise can be partly attributed to a decrease in the value of the New Zealand dollar against the main tourism markets. The TWI decreased around 10 per cent over the period, with the New Zealand dollar falling 12 per cent against the US dollar in 2015. This fall was influenced by decreasing commodity prices, especially in dairy – New Zealand’s largest export at the time⁷. This resulted in visitors getting significantly more New Zealand dollars for their money.

Figure 26: Average spend per international visitor



Source: International Visitor Survey, MBIE

Other economic factors such as lower airfare costs likely contributed to increased spending

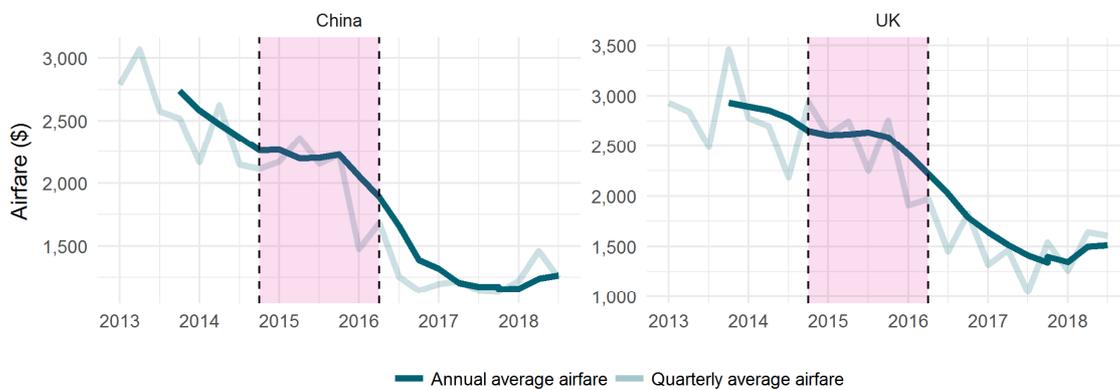
Another reason for this growth in spending could be the large drop in the price of airfares. Airfares from all countries fell over this period due to a fall in the price of crude oil per barrel by over two thirds (USD\$97 a barrel to USD\$30), and increased flight competition.

Cheaper airfares would mean visitors on a budget had more funds available after paying for flights. These funds could then be used by either spending more per day or extending the

⁷ <https://www.nbr.co.nz/article/nz-imports-rise-record-high-2015-kiwi-dollar-declines-b-184057>

length of the trip (in this period spend per day increased strongly while length of stay remained mostly flat).

Figure 27: Airfare prices between New Zealand, China and the UK



Source: Sabre

Long-haul flights are more affected by fuel prices than short-haul (e.g. Australia) flights, because fuel makes up a higher proportion of overall costs. As a result, visitors arriving from countries that are further away (such as China, the US and the UK) probably benefitted more from the reduction in airfares. This may have contributed to some of the large increases in spending per visitor seen in this period, and may also have increased arrivals by attracting some visitors to travel to New Zealand that may not have otherwise if airfares were more expensive.

The growth of the index of travel service prices from the Overseas Trade Index export series also slowed to its lowest rate in the last ten years (at less than one per cent per year) over this period. This meant prices of goods and services related to tourism did not grow as fast as other years and could have led to an increase in the number of purchases.

3.2.3. All main tourism markets saw large spend increases, with China doubling over the period

All markets saw spending increases, particularly the higher-spending markets

With the favourable economic conditions and increased visitor numbers, all of the top markets saw spending increases in the period. Higher spending markets, in particular, saw large increases, with China, the US and the UK up 101 per cent, 73 per cent and 44 per cent respectively over the period.

Figure 28: International visitor spend growth by country, Period 2



Source: International Visitor Survey, MBIE

Spending by the Chinese market doubled over the period

Chinese visitor spending more than doubled over the period, growing by \$880 million (up 101 per cent). This was due to a combination of a 56 per cent increase in arrivals and a 31 per cent increase in average spending.

China made up 30 per cent of the overall arrivals growth over the period. An agreement was signed in late 2014 between New Zealand and China to double the capacity of flights offered per week from 21 to 42⁸. This enabled increased air capacity from China including:

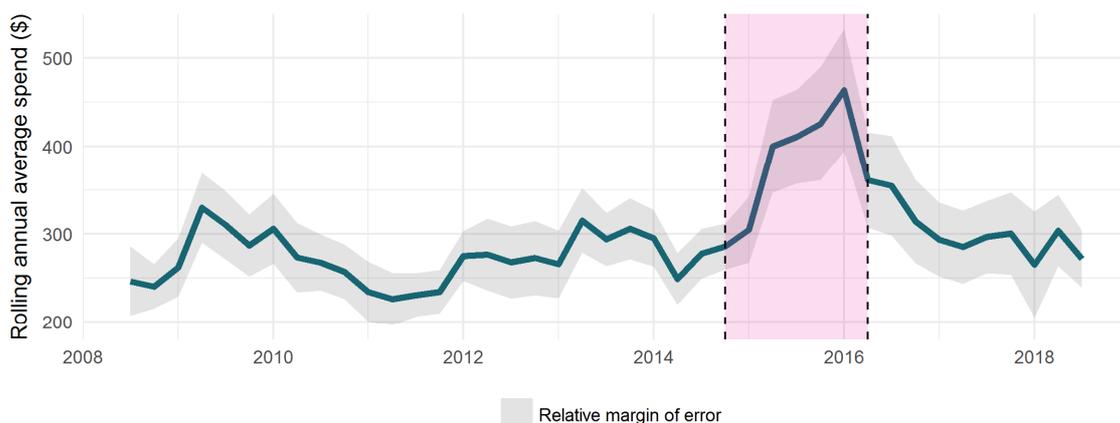
- China Eastern Airlines launched year-round flights between Auckland and Shanghai.
- Air China commenced a daily service between Beijing and Auckland in partnership with Air New Zealand.
- China Southern Airlines commenced year-round double-daily flights from Guangzhou to Auckland.
- China Southern Airlines began direct flights between Guangzhou and Christchurch.
- China Airlines expanded its summer service from Taipei via Sydney to Christchurch.
- China Airlines launched a service from Taipei via Melbourne to Christchurch for the summer period⁹.

The additional capacity contributed to a 63 per cent increase in Chinese visitor arrivals direct from China (180,000 in the year ended March 2016), overtaking Chinese visitor arrivals via Australia (171,000 year ended March 2016).

Average spending per visitor increased in the Chinese market, from \$3,700 to \$4,900 over the period due to a substantial increase in spending per day (from \$290 per day to \$360).

Chinese visitors also benefitted from a fall of the New Zealand dollar against the Yuan, with the quarterly NZD/CNY rate falling 16 per cent, and a drop in airfares (down around NZD\$430). Spend per day may also have been boosted by increases in visitors arriving on tours and packages (as they are typically spend more per day).

Figure 29: Average spend per day, Chinese visitors



Source: International Visitor Survey, MBIE

⁸ <https://corporate.aucklandairport.co.nz/news/latest-media/2014/auckland-airport-welcomes-increase-in-air-service-access-rights-with-china>

⁹ http://archive.stats.govt.nz/browse_for_stats/industry_sectors/Tourism/tourism-satellite-account-2016/summary-results.aspx

US visitor spending per day almost doubled over the period

Spending in the US market increased \$490 million over the period, a growth of 73 per cent. Although the market made up only nine per cent of the arrival growth, the high spending nature of the market contributed to an increase in average spending from \$3,500 to \$5,020. This resulted in the US overtaking the UK as the third largest market in this period.

This large increase was driven by spending per day of US visitors nearly doubling over the period, from \$158 to \$280. This was largely due to a strong appreciation of the US dollar due to a healthy economy (the US dollar index grew 13 per cent in 2014 and nine per cent in 2015^{10,11}) and a weakened New Zealand dollar which caused the NZD/USD quarterly exchange rate to fall around 21 per cent, increasing the purchasing power of US visitors in New Zealand.

Although growth in visitor numbers was not as large as other periods, US visitors were still up 19 per cent in the period. One of the reasons for this was Air New Zealand launching a direct service from Auckland to Houston for the first time¹². Houston is a major hub for the southern and eastern United States and also offers good connectivity to the Caribbean and Latin America.

3.2.4. Total spending of shorter-term visitors, visitors on packages and tours, and hotel stayers grew rapidly. Spending in retail also grew strongly over the period

The total spending of specific types of international visitors grew strongly over the period. Those visitors typically identified as high-value when it comes to spend per day (visitors arriving on packages and tours, short-term visitors, those staying in hotels) spent even more per day over the period, possibly due to more favourable economic conditions (decreased airfares, improved exchange rates) providing them with more funds. Targeted marketing campaigns (e.g. the Premier Kiwi Partnership programme launched in 2013 that aimed at Chinese ADS tours in New Zealand¹³) may have also contributed to this growth. High spending growth was also seen in 'non-essential' goods and services such as non-food retail, which also suggests that more high-value visitors were spending in New Zealand.

Visitors arriving on packages and tours made up the majority of spending growth

Spending by visitors coming to New Zealand as part of a package or tour increased greatly over the period.

Spending by visitors that arrived as part of a package increased \$1.8 billion, while spending by those that arrived as part of a tour increased by \$1.1 billion. The increase in spending by visitors arriving as part of a package was mostly seen in the Australian market (up \$580 million) and the Chinese market (up \$420 million) with the increases in spending by visitors arriving as part of a tour being more evenly distributed across the markets, the highest being the US growing \$190 million.

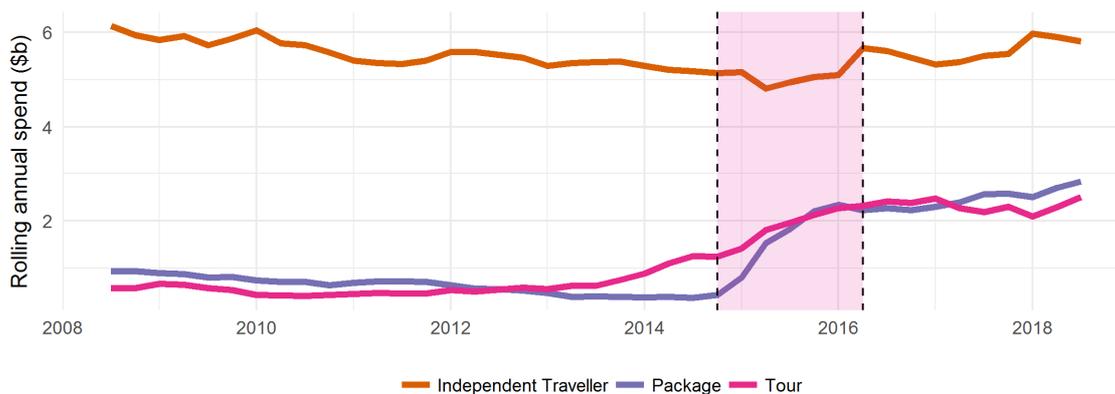
¹⁰ <https://www.ft.com/content/5f6be486-9111-11e4-914a-00144feabdc0>

¹¹ <https://www.cnbc.com/2015/12/30/australia-nz-dollars-destined-to-end-year-sharply-lower.html>

¹² <https://www.stats.govt.nz/assets/Uploads/Tourism-satellite-account/Tourism-satellite-account-2017/Download-data/tourism-satellite-account-2017.pdf>

¹³ <https://www.tourismnewzealand.com/tools-for-your-business/china-market-development/premier-kiwi-partnership/>

Figure 30: Visitor spend by visitor type



Source: International Visitor Survey, MBIE

Spending increased for short-term visitors

Spending rose in all length-of-stay categories over the period, but mostly for visitors who stayed shorter periods in New Zealand.

Visitors staying up to three days spent \$540 million more over the period, up 68 per cent. Relatively short-term trips often characterise packages and tours. Often tours of Australia will include a couple of days in New Zealand. The rise in the very short-term visitor spending was consistent with the large increases in spending by visitors arriving as part of a package or tour. Part of this could just be the result of a large increase in visitors in the Chinese market (more likely to come on a tour or package and to be short stayers).

Visitors who stay up to three days consist of a very high proportion of visitors from Australia and China, with a smaller proportion from the US. In the period, spending was up 82 per cent in the Australian market, 71 per cent in the Chinese market and 94 per cent in the US market.

The main reason spending increased in this group was because the amount spent per day increased from \$730 to \$1,050 over the period. Australian short-stayers spend per day was up \$237 and Chinese short-stayers grew \$230 per day to around \$1,470 per day on average.

Spending on 'non-essential' goods and services increase

The spending increases above also coincided with large spending increases in some goods and services in the Monthly Regional Tourism Estimates, the top three being:

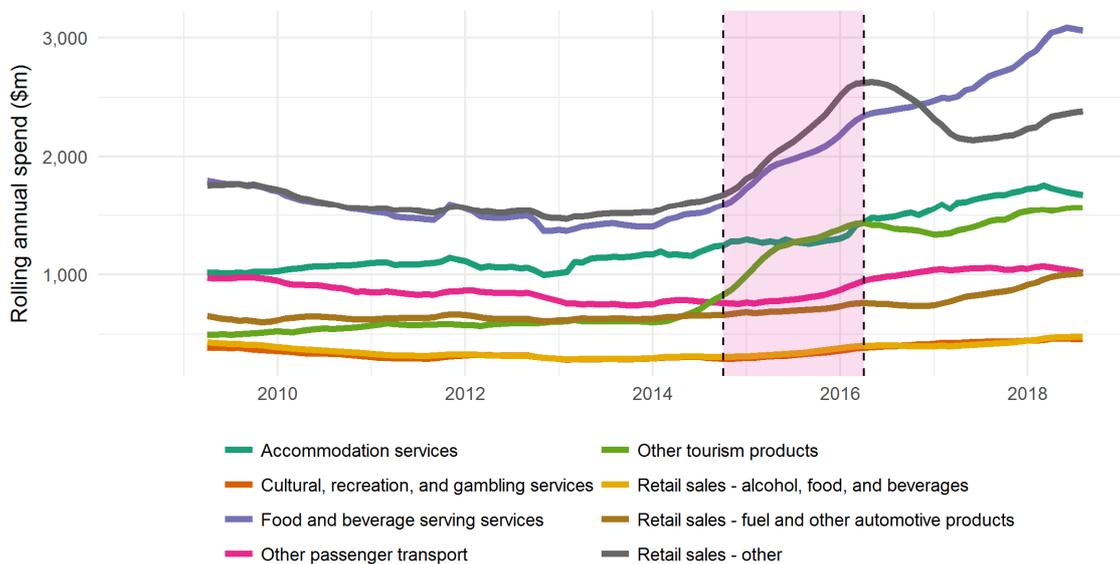
- **Retail sales – other** - this category includes a vast range of products including clothing, sports and camping equipment, and watches and jewellery
- **Food and beverage serving services** – this category includes companies that actually serve food with the largest sub-category being 'cafes and restaurants'
- **Other tourism products** – this category consists of a large range of tourism products including medical services, parking services and repairs¹⁴

All three of the categories grew at least \$600 million over the period with the largest being 'retail sales –other' that increased \$950 million, up 56 per cent. Increases in these goods and services may be due to an increase of disposable funds for visitors, due to favourable

¹⁴ More information on product types can be found here - <https://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/monthly-regional-tourism-estimates/document-image-library/mrte-user-guide.pdf>

economic conditions, and a rise in ‘high value’ visitors. As available funds increase, it is likely that visitors will spend more on these ‘non-essential’ goods and services.

Figure 31: Visitor spend by tourism goods and services



Source: Monthly Regional Tourism Estimates, MBIE

Spending increases were mainly from visitors staying in hotels or hosted accommodation

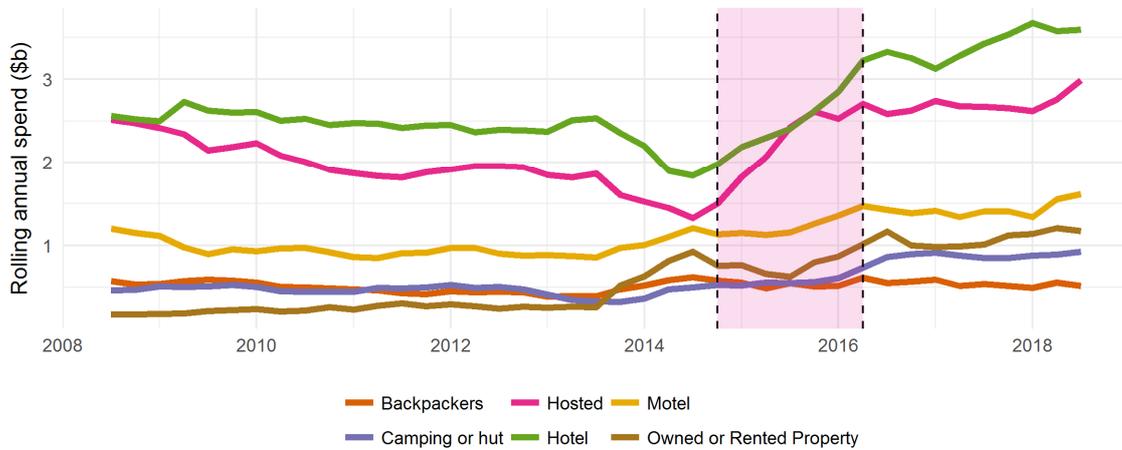
Large spending increases were seen in visitors who said they mainly stayed in a hotel or hosted accommodation. Spending increased \$1.2 billion in both of these categories, up 63 per cent for hotel stayers and 80 per cent for those staying in hosted accommodation.

There isn’t a clear definition for hosted accommodation, but it could include: Homestays, bed and breakfasts, or accommodation booked on a peer-to-peer accommodation website such as Airbnb. Airbnb began to have a presence in New Zealand in 2014 and 2015, with over 1,000 listings from New Zealand as of February 2015¹⁵.

Visitors who stay in hotels typically spend a lot more per day than any other form of accommodation. Visitors on tours and packages are likely to stay in hotels - therefore this increase would align with the large increases in spending by visitors arriving as part of a package or tour.

¹⁵ https://www.nzherald.co.nz/lifestyle/news/article.cfm?c_id=6&objectid=11409352

Figure 32: Visitor spend by accommodation type



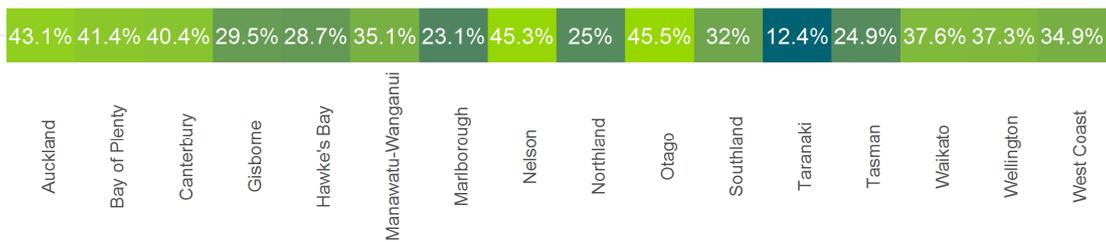
Source: International Visitor Survey, MBIE

3.2.5. Regions containing international airports had some of the highest levels of growth, suggesting visitors spent extra in the better connected cities

The ‘gateway’ regions – the four that contain the main international airports – had some of the highest growth rates over this period. Otago was the fastest-growing region for tourism spend (up 45.5 per cent), with Auckland third-highest (up 43.1 per cent) and Canterbury fifth (up 40.4 per cent). Wellington was the seventh-highest growing region at 37.3 per cent.

This suggests visitors could be spending proportionally more within these gateway regions. ‘Higher-value’ visitors in terms of spend per day (those in a package or tour, short stay, or staying in a hotel) could be more likely to visit these regions and not travel anywhere else.

Figure 33: Regional international visitor spend growth, Period 2

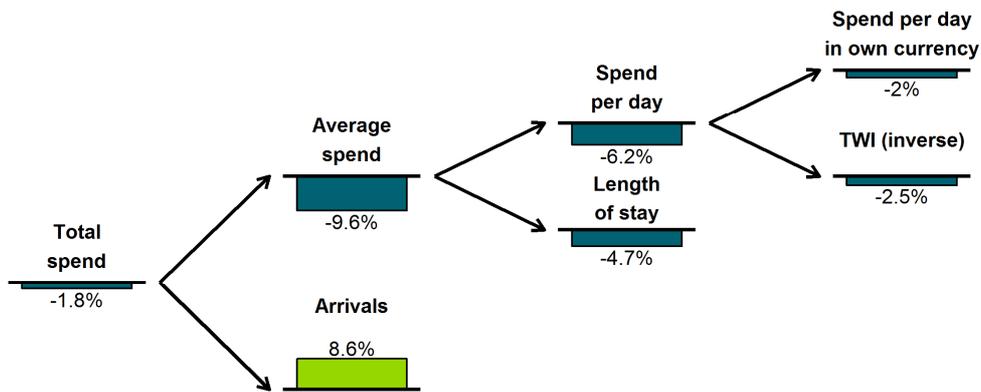


Source: Monthly Regional Tourism Estimates, MBIE

3.3. Period 3: Chinese arrivals slow, NZ dollar strengthens

June quarter 2016 – March quarter 2017 (4 quarters)

Figure 34: Factors contributing to changes in international tourism spend, Period 3

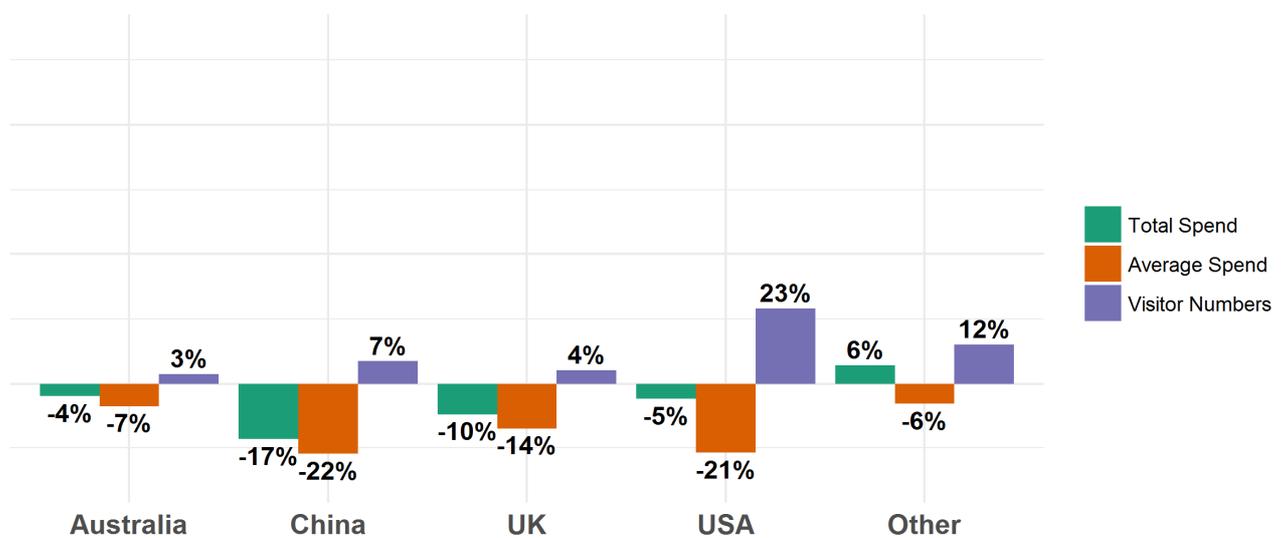


Source: International Visitor Survey, MBIE; International Travel and Migration, Stats NZ; Reserve Bank of New Zealand

A strong New Zealand dollar and a decrease in spending in larger markets led to a small fall in spending overall

- Spending fell while visitor numbers increased, driven by a strong New Zealand dollar
- A fall was seen in the largest markets, with the largest decrease being China
- Short term visitor spending fell, as well as retail spending, suggesting a fall in the short-stay shopping tour market
- Less-connected regions were not as affected by the falls in spending at a national level

Figure 35: International visitor spend, average spend and visitor number growth, Period 3



Source: International Visitor Survey, MBIE; International Travel and Migration, Stats NZ

3.3.1. Spending fell while visitors numbers increased, driven by a strong New Zealand dollar

Overall spend fell while arrivals continued to increase due to a fall in average spending per visitor

International visitor spending fell \$190 million in the year to March 2017, down 1.8 per cent (not statistically significant), when compared with the previous year. This was due to a 9.6 per cent fall in average spending that was mostly offset by an 8.6 per cent increase in visitor numbers.

A strengthening New Zealand dollar may have contributed to a fall in spending per day

The fall in average spend was due to a fall in the length of stay and spending per day over this period. Average spending per day fell by 6.2 per cent due to both a rise in the value of the New Zealand dollar compared to the main visitor markets (as reflected by an increase in the TWI) and a fall in the average size of budgets in a visitor's home currency.

The reduced budgets and worse exchange rate would mean visitors had a smaller budget in New Zealand. Ways of keeping to this budget would include either staying a shorter period of time or spending less per day while they were here.

3.3.2. A fall was seen in the largest markets, with the largest decrease being China

A fall was seen in the top four visitor markets by spend

In this period, the top four visitor markets - Australia, China, the UK, and the US - saw a drop in spending, despite increasing visitor numbers in each of these markets. This was due to a drop in the average spending for each country, most likely due to a strengthened New Zealand dollar against other currencies.

Other smaller markets, such as Malaysia, Thailand, Indonesia and Argentina saw large rises in visitors that contributed to spending increases from these markets, despite falls in average spending.¹⁶

Figure 36: International visitor spend growth by country, Period 3



Source: International Visitor Survey, MBIE

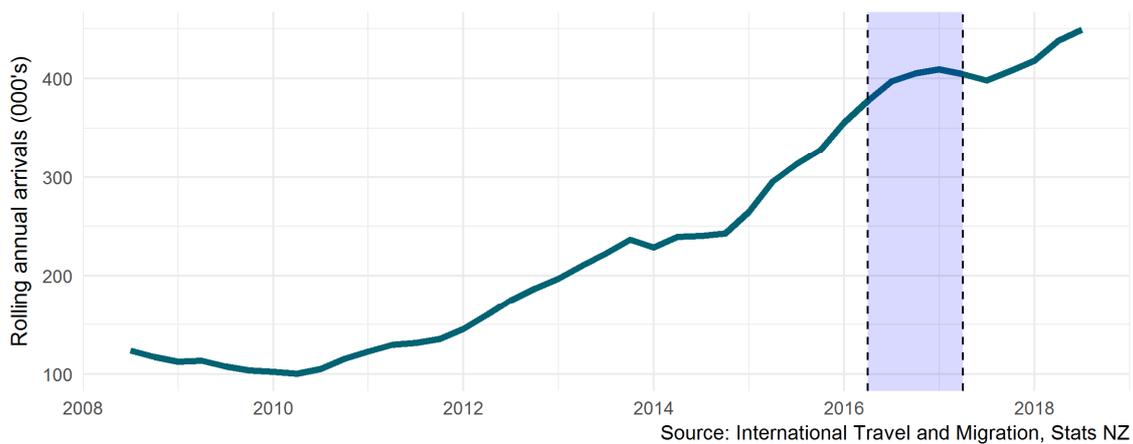
¹⁶ Due to the complexity of these markets and the lack of accurate spend data, the smaller markets are not explored further in this paper.

The decrease in spend in the Chinese market was due to a slowdown in visitors and the strengthening of the New Zealand dollar against the Chinese Yuan

The Chinese market showed the largest fall over the period, down \$300 million (or 17 per cent). This was due to a slowdown in arrivals and a large fall in average spending per visitor.

Arrivals grew rapidly in the Chinese market prior to this period, but slowed down to single figure growth. The March quarter, generally by far the high season for Chinese visitors, was down 3.4 per cent compared with the same quarter the year before.

Figure 37: Chinese visitors to New Zealand



A fall in the number of Chinese Group Visitor Visas issued may have contributed to this slowdown. Group Visitor Visas fell by 19,000 (down ten per cent) over this period. These are the Approved Destination Status (ADS) visas that enable Chinese holiday travellers to visit New Zealand as part of a tour group¹⁷. A fall of 13 per cent in spending by Chinese visitors arriving as part of a tour could have been a direct result of the fall.

Figure 38: Approved Chinese visas to New Zealand



Since January 2017, Chinese citizens have faced extra disclosure requirements when purchasing foreign currency (although the quota of \$50,000 was unchanged). The additional requirements may have had a negative impact on their willingness to travel. However Chinese average spending in New Zealand is significantly lower than the threshold, and therefore it is less likely to have affected spend.

¹⁷ <https://www.tourismnewzealand.com/tools-for-your-business/china-market-development/approved-destination-status/>

Average spending fell in the Chinese market due to a large fall in spending per day, down \$76 over this period. A significant contributor to this was the weakening of the Chinese Yuan, with 2016 showing the biggest annual decrease since 1994 and reaching its lowest value against the US dollar in over eight years¹⁸. This, combined with a strengthening of the New Zealand dollar, caused the NZD/CNY exchange rate to drop heavily over the period, resulting in reducing purchasing power for Chinese visitors.

Spending fell in the Australian, US and UK markets

Spending from the Australian and UK markets both fell \$100 million over the period (down four and ten per cent respectively) while the US market fell \$60 million (down five per cent). This was due to average spending decreasing in each market, which could be largely attributed to falls in the value of their currencies when compared to the New Zealand dollar.

In the Australian market, the fall in average spending appears to be due to a number of factors. Over the period, the average length of stay fell by around one day; there was a small decrease in the Australian dollar against the New Zealand dollar; and there was a small fall in the average spend of Australian visitors when converted to Australian dollars.

In the US market, the 23 per cent rise in arrivals was offset by a 25 per cent fall in average spending over the period. Although the US dollar did fall slightly against the New Zealand dollar over the period, the average spend of US visitors in US dollars fell heavily. It is difficult to attribute why this might have occurred.

Spend in the UK market also fell in the period, driven mainly by a fall in the average spending. During this period, the UK voted to leave the European Union on June 23, 2016, which led to a significant drop of the value of the UK pound against most trading partners¹⁹. When converted back to GBP, average spending in their own currency increased five per cent over the period, suggesting that the exchange rate was the main reason for the overall fall in UK spending.

3.3.3. Short term visitor spending fell, as well as retail spending, suggesting a fall in the short-stay shopping tour market

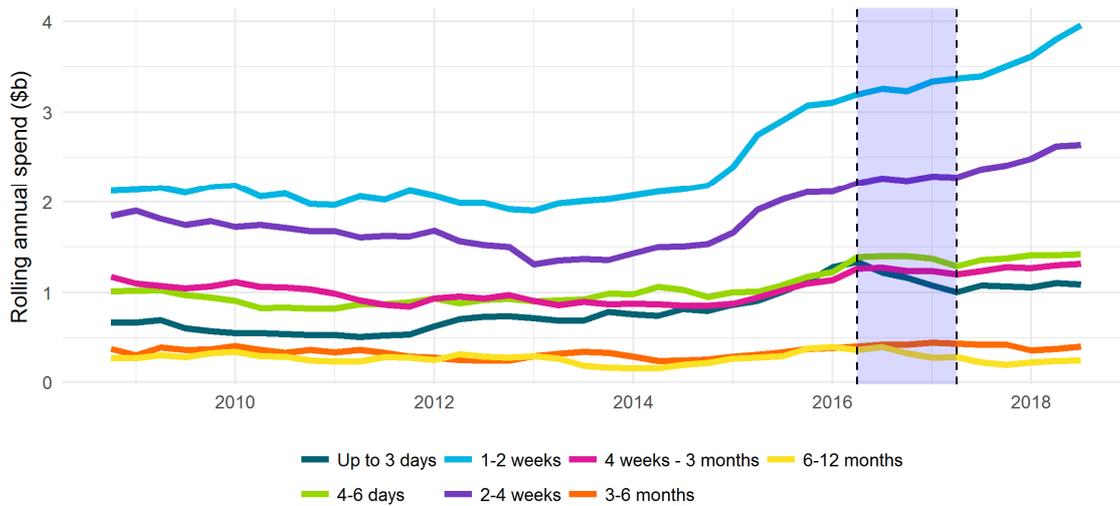
Spending by visitors coming for less than three days fell by a quarter

Spending by short-term visitors coming to New Zealand for three days or less fell \$330 million over the period, down 25 per cent. Even though arrivals grew in this category, spending per day fell nearly \$300. This caused a substantial fall in average spending per visitor, and led to the decrease in overall spending.

¹⁸ <https://www.reuters.com/article/us-china-yuan-idUSKBN14J0QC>

¹⁹ The UK Trade weighted index fell seven percent between June 23 2016 and June 24 2017.

Figure 39: Visitor spend by length of stay



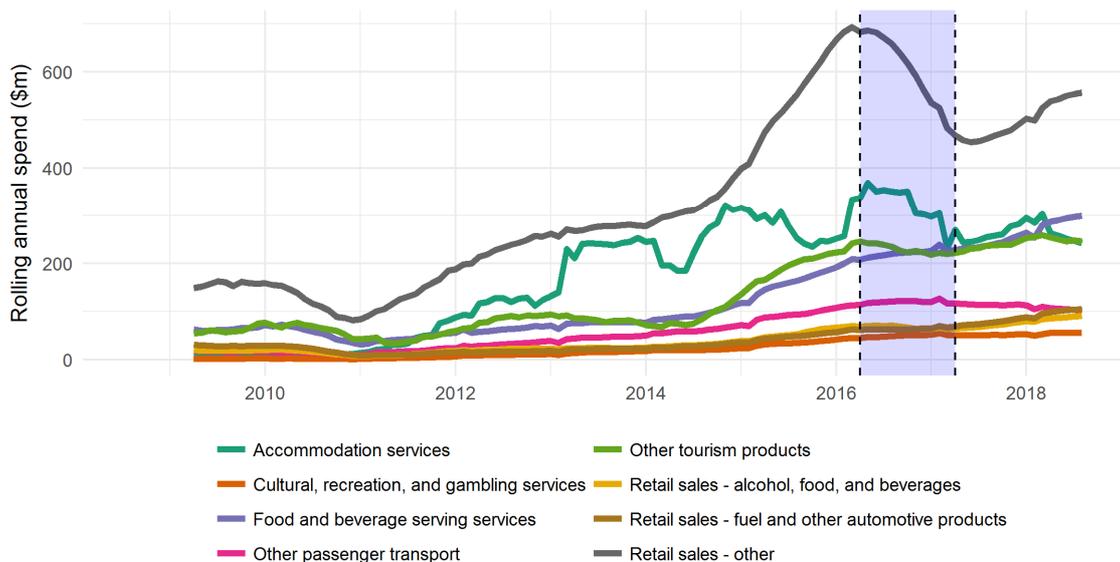
Source: International Visitor Survey, MBIE

The Chinese market made up around a third of visitors who stayed for three or less days, and was the main contributor to the overall fall, down \$120 million (or 24 per cent). Chinese arrivals in this category fell by three per cent, with spend per day falling around \$260.

Spending fell heavily in retail sales

The fall in spending in the period was driven by the ‘retail sales – other’ category which fell \$465 million. This was seen most clearly in the Chinese market where spending on ‘retail sales – other’ dropped \$215 million, down 31 per cent.

Figure 40: Chinese visitor spend by tourism goods and services



Source: Monthly Regional Tourism Estimates, MBIE

One potential reason for this fall is that visitors may have lower ‘disposable’ funds due to the less favourable exchange rate when converting their money into New Zealand dollars. Some retail products could be seen as ‘non-essential’, and therefore this category could be more affected if a visitor’s level of disposable funds goes down.

Another reason could be the reduction in spending of short-term visitors who generally spend more money per day than longer-term visitors. These visitors may be more inclined to do retail shopping - so a drop in spending in short-term visitors could directly affect retail sales.

3.3.4. Less-connected regions were not as affected by the falls in spending at a national level

Many tourism operators have previously voiced that they had not seen evidence of the fall in spending in their own region. This may be because, although tourism spending fell slightly in most regions, some regions were less affected.

In the South Island, spending increased in four of the seven regions, with Tasman (up 17.8 per cent), Southland (up 10.5 per cent), the West Coast (up 9.6 per cent) and Otago (up 5.4 per cent) all showing growth. Waikato and Hawkes Bay were the only regions on the North Island to see a rise, up 5.2 per cent and 0.6 per cent respectively over the period.

This may have been due to the composition of visitors in some regions, which meant they were less affected by the specific markets and visitor types where spending fell (i.e. higher-value visitors who stay for shorter periods).

All of the regions that saw a rise in spend have a lower proportion of spending in the ‘retail sales – other’ product category than the national average, and a lower proportion of Chinese visitor spending than the average. It is also more likely for short-term stayers to visit the ‘gateway’ regions (and maybe only these regions), meaning they were more affected by a drop in this market (with the exception of Otago).

Price pressures from petrol may have contributed to the increases in South Island tourism spending. The price of petrol increased over the period, with the quarterly discount retail price up 13 per cent. This could have positively affected regions that generally receive a higher proportion of spending on fuel. Tasman, West Coast, Southland had the highest spend growth and also have the highest proportions (all three have over double the average).

Figure 41: Regional international visitor spend growth, Period 3

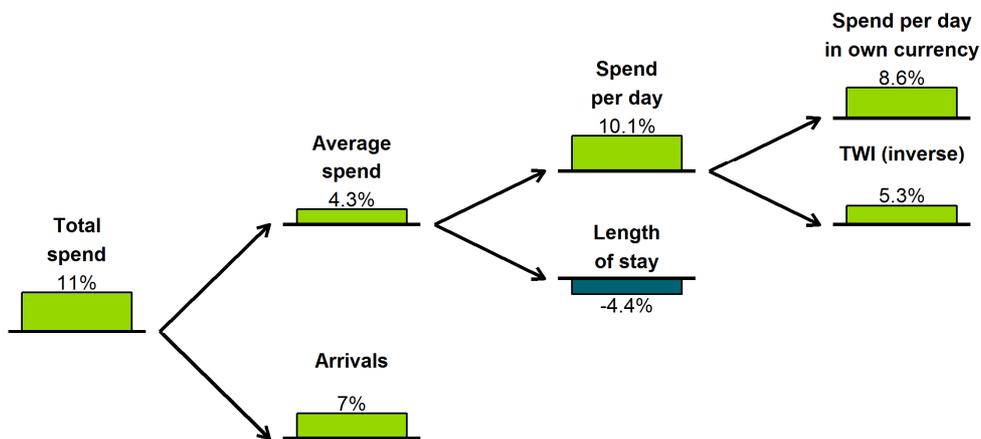


Source: Monthly Regional Tourism Estimates, MBIE

3.4. Period 4: Growth across most markets

June quarter 2017 – June quarter 2018 (5 quarters)

Figure 42: Factors contributing to changes in international tourism spend, Period 4

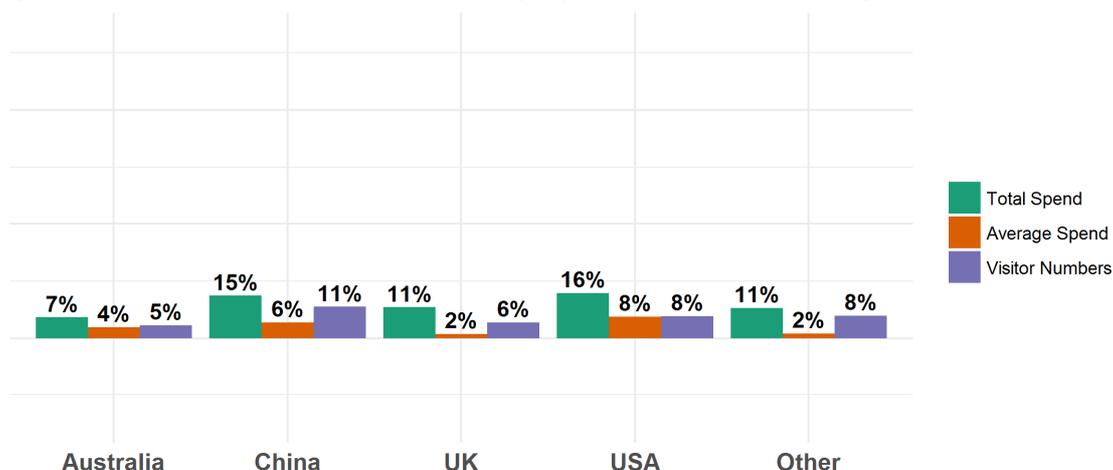


Source: International Visitor Survey, MBIE; International Travel and Migration, Stats NZ; Reserve Bank of New Zealand

Spending grew faster than visitor numbers due to economic growth in many of our markets and a fall in the New Zealand dollar

- Increases in the average budgets of visitors coupled with a weakened New Zealand dollar helped international tourism spend to grow faster than visitor numbers
- Most markets saw a rise in visitor spend, of which emerging markets made a large contribution
- Increased spending by short-medium stayers made a large contribution to overall growth
- Visitor spending on food and beverage servicing grew strongly, as well as on fuel
- More consistent growth was seen across regions

Figure 43: International visitor spend, average spend and visitor number growth, Period 4



Source: International Visitor Survey, MBIE; International Travel and Migration, Stats NZ

3.4.1. Increases in the average budgets of visitors coupled with a weakened New Zealand dollar helped international tourism spend to grow faster than visitor numbers

Visitor arrivals continued to rise steadily, though visitor spend grew faster due to a slight rise in the average spend per visitor

This period appears to be the most 'stable' in terms of visitor mix and economic factors out of all of the periods analysed.

Spending by international visitors increased \$1.1 billion over the period, a growth of 11 per cent. The primary reason for this growth was a rise in the number of international visitors (up seven per cent) with a secondary reason being an increase in average spending per visitor (up 4.3 per cent).

The rise in average spend was driven by both visitors spending more in their own currency and the New Zealand dollar weakening

The average spending of visitors per day reached a record high of \$197 per day by the end of the period. Most of this rise in spending per day can be attributed to a rise in spending per day in a visitor's home currency, therefore suggesting average visitor budgets may be increasing. A fall in the value of the New Zealand dollar (the quarterly TWI was down 5.3 per cent) also contributed to this, however was offset by a fall in the length of stay.

One reason for this rise in the average spend per day could be that prices have increased a lot in this period. The index of travel service prices from the Overseas Trade Index export series saw the largest increase since 2013. This means prices of goods and services used by visitors have increased at a higher rate, and therefore visitors may need to spend more.

3.4.2. Most markets saw a rise in visitor spend, of which emerging markets made a large contribution

The top four markets made up nearly two thirds of the spending increase in this period

China saw the largest increase of \$216 million (up 15 per cent), followed by Australia (up 7 per cent), the US (up 16 per cent) and the UK (11 per cent).

Figure 44: Changes in international visitor spend, Period 4



Source: International Visitor Survey, MBIE

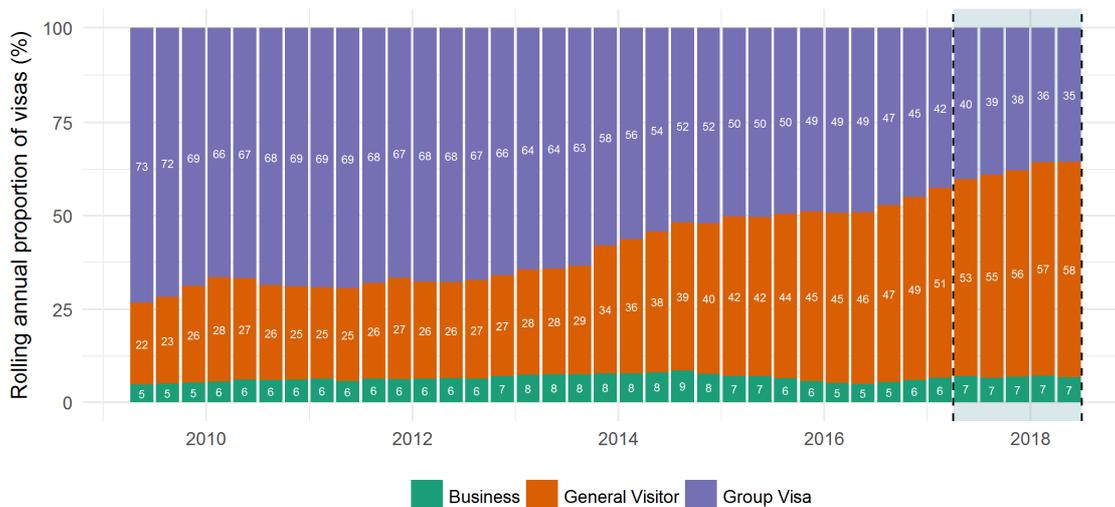
The Chinese market benefitted from an increased airline seat capacity in the period, including:

- Sichuan Airlines commencing flights to New Zealand²⁰
- a new direct service from Hong Kong to Christchurch²¹
- Additional services from Guangzhou to Christchurch²².

Chinese visitors also benefitted from an eight per cent increase in the NZD/CNY exchange rate, which gave them more purchasing power in New Zealand.

The Chinese market saw a large increase in spending by independent travellers, up nearly \$150 million over the period (22 per cent). This was in line with the trend in types of visas granted annually, with General Visitor visas (those more associated with independent travellers) increasing nearly 30 per cent while Group Visas decreased five per cent.

Figure 45: Chinese visas to New Zealand, type, proportion of total



Source: Immigration, MBIE

The US market saw an eight per cent increase in the average spend per day. The US to New Zealand exchange rate was relatively flat over this period, therefore this rise reflected increased spending from US visitors in US dollars.

Large increases in visitor numbers from emerging markets likely made a major contribution to the increase in spend

Countries outside the top six markets saw a large increase in spend. The ‘Rest of Asia’ category made up over half of the \$435 million increase in the ‘other’ category. ‘Rest of Asia’ increased \$224 million, up 20 per cent. As stated previously, this report does not explore spending figures within the ‘other’ category at the individual country level because of sample sizes.

However, over this period, the category ‘Rest of Asia’ also saw a large increase in visitors to New Zealand, up 16 per cent to 388,000. Some of the emerging markets in Asia saw large increases in visitors, including Philippines (up 29 per cent to 27,000), Hong Kong (up 28 per cent to 58,000), India (up 25 per cent to 67,000) and Taiwan (up 17 per cent to 42,000). These emerging markets are likely to be a major contributor to the increase in spend in the ‘other’ category.

²⁰ <https://www.stuff.co.nz/travel/news/89633732/sichuan-airlines-to-become-next-chinese-airline-to-serve-new-zealand>

²¹ <https://www.stuff.co.nz/business/101353235/50000-chinese-tourists-heading-this-way-to-celebrate-their-new-year>

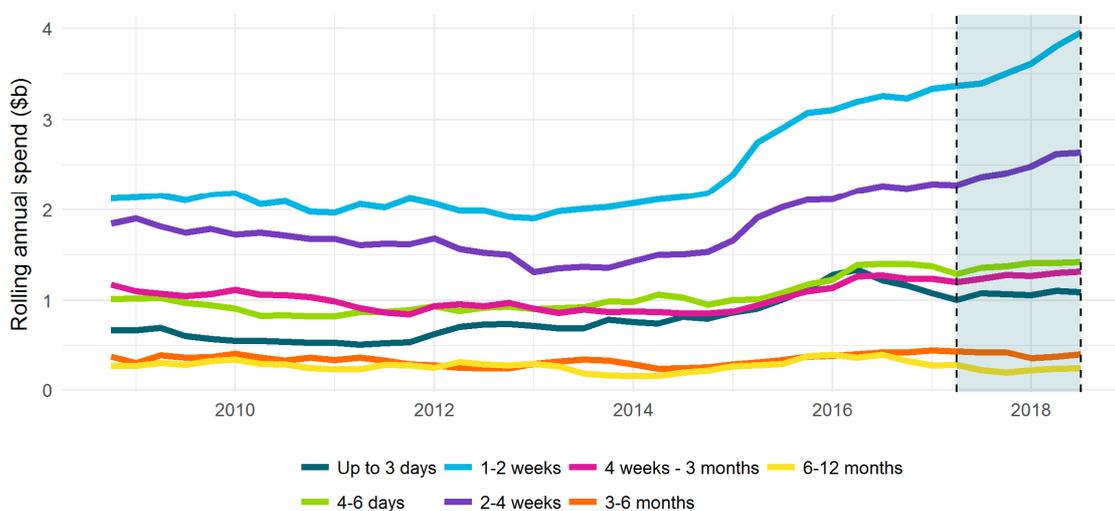
²² <https://www.stuff.co.nz/travel/96335746/christchurch-to-china-service-to-run-daily-over-summer>

3.4.3. Increased spending by short-medium stayers made a large contribution to overall growth

An increase in spending by visitors staying for 1-4 weeks supported the increase in the period, making up nearly \$1 billion of total growth. Over half of all visitors to New Zealand stay for 1-4 weeks and therefore small changes in the spending habits of these visitors can greatly affect overall spend. Spending by visitors staying for 1-2 weeks saw the largest rise, increasing nearly \$600m over the period (up 17 per cent), with spending by those staying for 2-4 weeks also increasing \$360 million (up 16 per cent).

The top three markets made up a large proportion of spending by those staying for 1-2 weeks (around 60 per cent), with the US growing 37 per cent (up \$180m), China growing 30 per cent (up \$150m) and Australia growing 16 per cent (up \$140m).

Figure 46: Visitor spend by length of stay



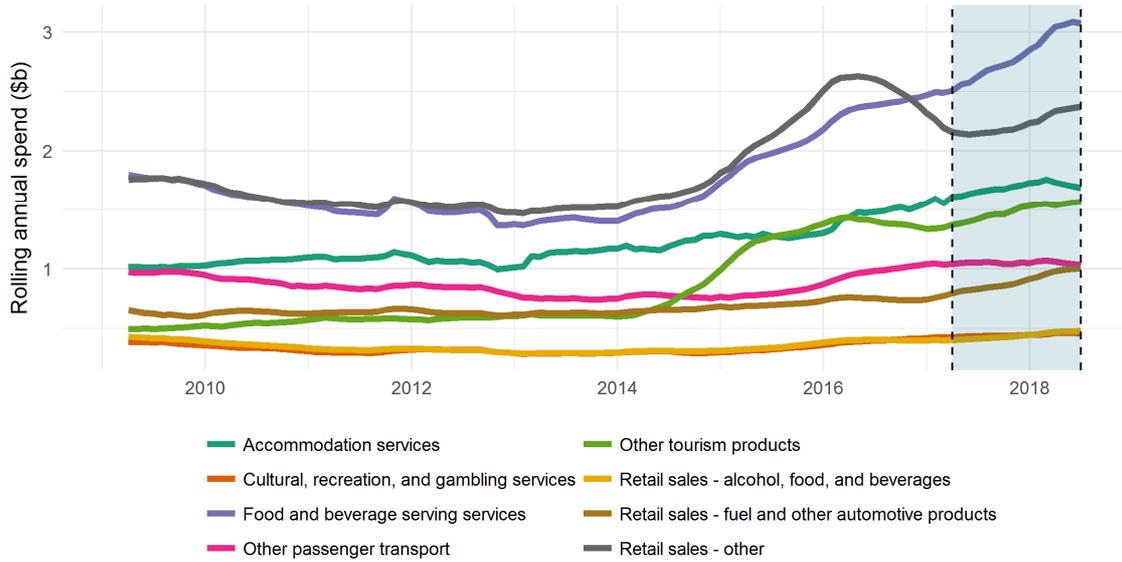
Source: International Visitor Survey, MBIE

3.4.4. Visitor spending on food and beverage services grew strongly, as well as on fuel

‘Food and beverage services’ is the largest goods and services category for international visitor spend in New Zealand. Over the period, spend in food and beverage services grew 22 per cent to over \$3 billion. This increase means it made up over 25 per cent of all international visitor spend in the year ended June 2018.

A reason for this growth could be that the increase in the category ‘Restaurant meals and ready-to-eat food’ in the Consumer Price Index was more than double that of the Food Price Index and the overall Consumer Price Index. This means that prices of food in establishments like restaurants and cafés increased faster than the prices of other foods (e.g. from supermarkets) and all other goods and services.

Figure 47: Visitor spend by tourism goods and services

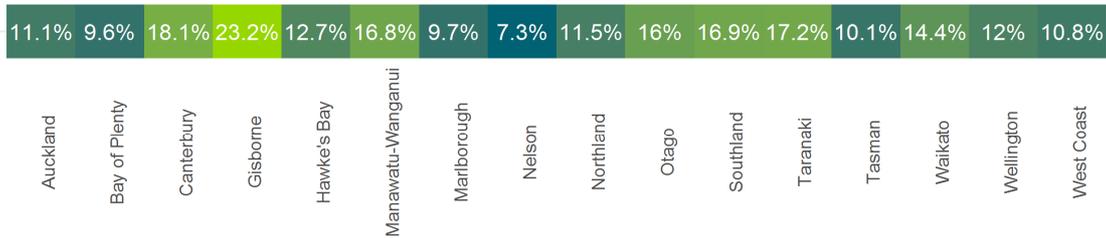


Source: Monthly Regional Tourism Estimates, MBIE

3.4.5. More consistent growth was seen across regions

During the period growth seemed quite consistent across the regions. The largest rise was in Gisborne, up 23.2 per cent. The growth rates in the other regions were within approximately ten percentage points of each other.

Figure 48: Regional international visitor spend growth, Period 4



Source: Monthly Regional Tourism Estimates, MBIE

4. Implications for tourism industry and policy

Changes to economic factors (especially exchange rates) and market composition can significantly affect tourism spend in New Zealand. Being aware of these changes is important for industry planning

The tourism industry is likely to benefit from monitoring changes in economic factors and using these as indicators to plan for the near-term future. The value of the New Zealand dollar, especially against the currencies of the largest tourism markets, could be used to help predict the level of international visitor spending, as average spending is very sensitive to changes in exchange rates.

Likewise, changes in other economic factors such as airfare and fuel prices may affect levels of spending as well as the prices of goods and services.

Monitoring the composition of arrivals is also likely to benefit the industry and shifts towards different markets will affect spending differently in some regions and businesses to others.

Changes in these factors affect regions differently, meaning that some regions may not experience the full effects of changes in spend seen nationally

Each region has a different mix of visitors which have different characteristics (such as age, country of origin, etc.) and spending habits.

Some regions will be affected more by changes in some markets than others – for example, changes to spending in the Chinese market are likely to affect more connected regions (regions with international airports) more than others, as they have higher proportions of Chinese spend. Some regions may be more affected by changes in prices of goods and services; for example, changes in the price of petrol may affect regions that experience a higher proportion of spending on fuel.

Growth in the Chinese market shows no signs of slowing, and with 2019 being the Year of China New Zealand Tourism, market share is likely to continue to increase

Although there are many factors that contribute to the variation in visitor spend, one of the most significant has been the change in the Chinese market, now New Zealand's second largest market by spend. Past data shows the Chinese market has been highly volatile, especially when compared to Australia, the largest tourism spend market.

The Chinese market is now the world's largest outbound market. The market still shows great potential for growth with less than ten per cent of residents currently holding a passport - the current figure is predicted to double by 2020²³. The China Outbound Tourism Research Institute also predicts that overseas trips will increase to 400 million by 2030, compared with 145 million seen last year (a rise of around 220 per cent)²⁴. This could equate to around a quarter of all international tourism.

This trend has been reflected in the New Zealand Tourism Forecasts where it is expected that spending by the Chinese market will overtake the Australia market by 2024 (however there would still be more arrivals from Australia).

²³ <https://www.bloomberg.com/news/articles/2018-01-25/ctrip-sees-surge-in-new-chinese-passports-spurring-tourism-boom>

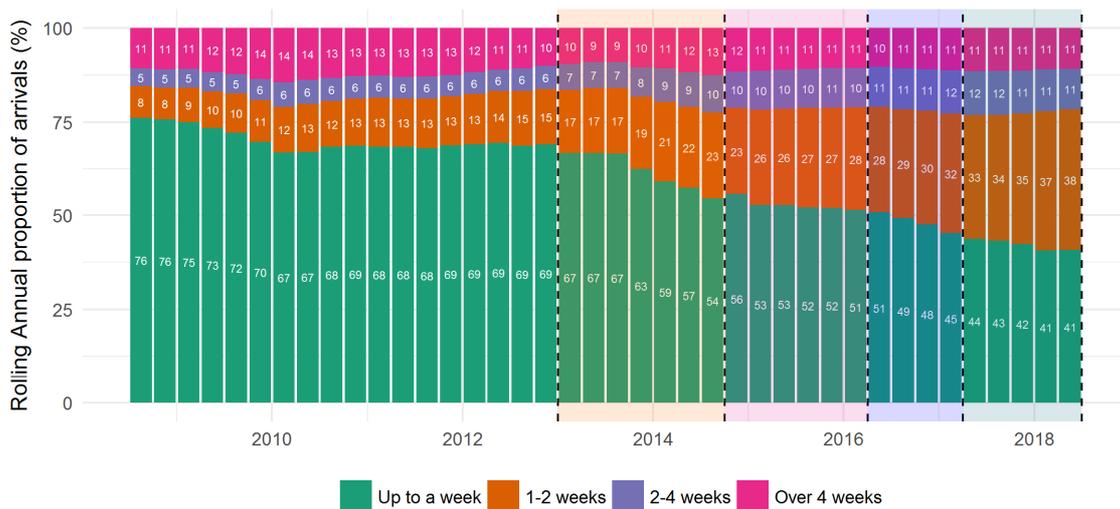
²⁴ <https://www.telegraph.co.uk/travel/comment/rise-of-the-chinese-tourist/>

Chinese visitor spending and behaviour habits are changing

In the year ended June 2018, 41 per cent of spending by Chinese visitors were from those that mainly stayed in hotels, with 34 per cent from those that mostly stayed in hosted accommodation (this includes the short term rental market such as Airbnb). Most visitors are of working age with around 50 per cent of spending coming from those on a package or tour. The Chinese market also spends a lot more on retail and accommodation and less on food and beverage services. Chinese visitors typically stay for shorter lengths of time and visit fewer regions than other visitors (just under three on average). MBIE released a paper in late 2016 that showed only around a fifth of Chinese visitor expenditure is outside of the ‘gateway regions’.

However, the behaviours and characteristics of the average Chinese visitor are changing. There are now more General Visas (typically associated with longer-staying, independent travellers) accepted than Group Visas (typically associated with shorter stays). This is reflected by the market share of Chinese visitors staying one-to-two weeks doubling since 2013, whereas the market share of those staying for less than three days fell approximately 19 per cent. The median stay length has doubled over the last five years (from four to eight days).

Figure 49: Proportion of visitor arrivals, by length of stay



Source: International Travel and Migration, Stats NZ

As the outbound Chinese market grows and diversifies, there looks to be a shift in the reason of travel, with the primary purpose of travel no longer being shopping, and looking more towards activities, experiences, fine dining and learning experiences²⁵. This provides more of an opportunity to places that are outside the major cities, where there may be less opportunity for shopping but more opportunity for spending in other areas.

New Zealand needs to prepare for the future of Chinese tourism and has an opportunity for improved regional dispersal

With the ties between New Zealand and China improving (2019 will be the China-New Zealand Year of Tourism) and the Chinese market’s huge future potential, there is an opportunity to improve the value of the Chinese market in New Zealand.

Auckland, with a higher proportion of Chinese spend than any other region (21 per cent of spend), is relatively well set up to cater to the current and future needs of the market, with,

²⁵ <https://china-outbound.com/chinese-outbound-tourists-spending-habits-are-evolving-alongside-their-tastes/>

for example, vast amount of opportunities for shopping; many accommodation establishments catering for higher spending visitors; and the largest international airport. However other regions are less able to capture this spend. There remain plenty of opportunities for encouraging regional dispersal of the Chinese market in New Zealand, as Chinese spending makes up less than five per cent of spending in seven of the 16 regions in New Zealand, compared with the national average of 15 per cent. These regions tend to be smaller and less-connected, with no major airport.

Work is being done by the tourism sector and Government to improve the regional dispersal of the market, and this is likely to have contributed to changing attitudes and behaviours of the Chinese market in New Zealand. Tourism New Zealand launched 'Heart of the Long White Cloud' campaign in 2017, aimed at promoting Wellington and regions at the top of the South Island to Chinese free and independent travellers.

There is also an opportunity to improve the ability for visitors to use mobile payments. A recent study found that 65 per cent of Chinese outbound visitors said they have used mobile payments abroad and 93 per cent saying they would if they were given the option²⁶. The study also found that cost was far less important than the experience itself, one reason as to why the Chinese market is such a high-spending market.

²⁶ <https://www.nielsen.com/cn/en/insights/reports/2018/nielsen-over-90-percent-chinese-tourists-would-use-mobile-payment-overseas-given-the-option.print.html>

5. Appendix

5.1. Caveats and disclaimers

5.1.1. A margin of error has to be taken into account when interpreting IVS figures

Surveys aim to estimate characteristics of a population from a sample. There is some error associated with estimating a total in a population from a sample, and this can be quantified. The IVS is a survey designed to meet a five per cent Relative Margin of Error (RME) for the total annual expenditure and a ten per cent RME for each of the top six country markets. To achieve these RMEs, the IVS aims to sample a minimum of 8,900 international visitors to New Zealand per year with target allocations for each of the top six markets.

When the RME for a particular set of data rises above the target RME, it does not mean the results are wrong. Rather, it means the confidence interval of the statistic produced will be wider and therefore there is less confidence that the result is close to the “true” figure.

The RME needs to be considered when interpreting the results, as although a spending or a growth figure is given, the actual true value could be anywhere within the RME range e.g. spending fell by \$190m (down 1.8 per cent) in the year ending March 2017 however the figure could have been anywhere between a \$300m increase (up three per cent) or a \$680m decrease (down 6.7 per cent).

More information on the RME and other metrics for survey quality of the IVS can be found on the IVS website²⁷.

5.1.2. Data from different data sources can differ

The IVS was the predominant data source for this report, however other data sources were used as well.

The regional and goods and services spend figures in this report come from the Monthly Regional Tourism Estimates (MRTes). Although the IVS feeds into the MRTes, the aggregated figures produced can differ for a number of reasons.

The MRTes are calculated using a subset of all electronic card transactions (ECT) in New Zealand, tourism spend figures by country from the IVS and forecasted provisional tourism spend values from the Tourism Satellite Account (TSA). Each of these data sources has a degree of error associated with them however due to the nature of the anonymised ECT data which MBIE uses, the error in spend data cannot be estimated.

The MRTes are also estimates, so should be treated as indicative, no definitive. They are subject to standard annual revisions to improve these estimates and are implemented when additional data is released every year in the TSA.

5.2. Definitions

International tourism spend

The international tourism spend used in this report is from the International Visitor Survey (IVS).

²⁷ <https://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/ivs/survey-quality>

The population of interest for estimating total expenditure of international visitors to New Zealand is defined using the World Tourism Organisation (WTO) definition of an international visitor:

“persons who travel to a country other than that in which they have their residence, but outside their usual environment, for a period not exceeding 12 months and whose main purpose of visit is other than the exercise of an activity remunerated from within the country visited.”

Given this definition, the population excludes:

- individuals who reside in New Zealand (New Zealand was their last place of residence for twelve months or more),
- individuals who have been in New Zealand for longer than 365 days,
- those in transit who have not formally entered New Zealand (they have not filled out an arrival card and handed it into Customs),
- individuals who visit New Zealand to serve in the armed forces, for diplomatic or consular business, or aircrew on duty or between flights, and
- individuals whose next country of permanent residence is New Zealand.

The target population also excludes:

- Those aged less than 15 years because parental consent is required to interview those under 15, and this is not practical at the interview screening stage.
- Those whose primary purpose of visit were to attend a recognised educational institute and will be foreign fee paying students. The spending of this group is estimated separately as their spending patterns are significantly different from other international visitors, which can create problems in calculating estimates of total spend.

International visitor arrivals

International visitor arrivals data comes from the Stats NZ release International travel and migration. This information is taken from visitor arrival and departure cards.

International visitors are defined as people who live overseas and are visiting New Zealand for less than 12 months (as determined by responses on their arrival and departure cards).

