MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Sector Performance

New Zealand Tourism Forecasts 2015-2021

Report

May 2015

New Zealand Government

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Ministry of Business, Innovation and Employment (MBIE)

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May 2015

Foreword

It is my pleasure to release the Ministry of Business, Innovation and Employment's tourism forecasts for the 2015-2021 period.

The global economic outlook is stronger than in previous years. Reflecting this more positive outlook, the tourism forecasts are strong, with international visitor expenditure projected to increase 48.5 per cent to $11.1 billion by 2021.

I am pleased to announce the introduction of two emerging markets to our forecasts, India and Indonesia. These markets have seen strong growth in recent years, so providing further insight on the future of these markets will be useful to the sector.

This year, MBIE has also launched an interactive web tool for users to explore the forecast results for key markets. This can be found on MBIE's website here:
http://www.med.govt.nz/sectors-industries/tourism/tourism-research-data/forecasts.

The forecasts are based on econometric modelling, current trends and best available forecasts of international factors. They provide a baseline for what will happen 'if things keep going this way'. The forecasts do not set targets and are not numbers carved in stone. Rather, I hope that these forecasts will encourage strategic thinking and planning from the industry so that it can continue to provide visitors with high-quality experiences whilst striving toward the aspirational goals set out in the Tourism 2025 framework.

The forecasts are subject to the global economic situation. China and Australia will remain key markets in the coming years, with arrivals from these two countries projected to make up 56.1 per cent of visitors by 2021.

Due to longer stays, the average spend per day is expected to drop for many of our key markets, except for the US, UK and South Korea, where we are expecting to see an increase in daily spending. We are noticing an upturn in visitors coming to New Zealand on holiday, after a flattening on this part of the market during the Global Financial Crisis (GFC). This upturn is particularly pronounced for China, Germany and the US markets.

The Ministry has continued to use a technical committee to moderate and improve the forecast results. The technical committee consists of members from the Ministry, Air New Zealand, Tourism Industry Association, Auckland International Airport, the New Zealand Institute of Economic Research (NZIER) and Tourism New Zealand. This approach of combining quantitative modelling with expert industry knowledge has worked well to deliver better results. I would like to take this opportunity to thank all of you who were involved in this process.

Michael Bird
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Institutions and Systems Performance, Science, Skills and Innovation
Ministry of Business, Innovation and Employment

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1. Background to the report

Each year, the Ministry of Business, Innovation and Employment (MBIE) produces tourism forecasts to support planning and investment processes in the tourism industry.

In response to industry feedback, this year's report includes specific forecasts for India and Indonesia, two emerging and important markets for New Zealand. There is also additional insight and context on the South American market, to help industry think about what these markets might mean for their own businesses.

The forecasts are developed using NZIER's tourism forecasting model with input from a small expert committee of industry participants. This approach, supported by one-on-one discussions with members of the industry, helped develop the outlook. The forecasts are based on macroeconomic drivers such as exchange rates, oil prices, the global economy and the economies of our key visitor markets.

The industry-led and government supported Tourism 2025 framework provides a shared vision and common framework to drive the contribution tourism makes to the New Zealand economy. Success of initiatives under the framework will help the tourism sector achieve its $41 billion aspirational goal by 2025 based on 6 per cent year-on-year growth in international expenditure. The tourism forecasts 2015-2021 show New Zealand just shy of the international expenditure target, at 5.8 per cent growth per year to 2021.

2. Executive Summary

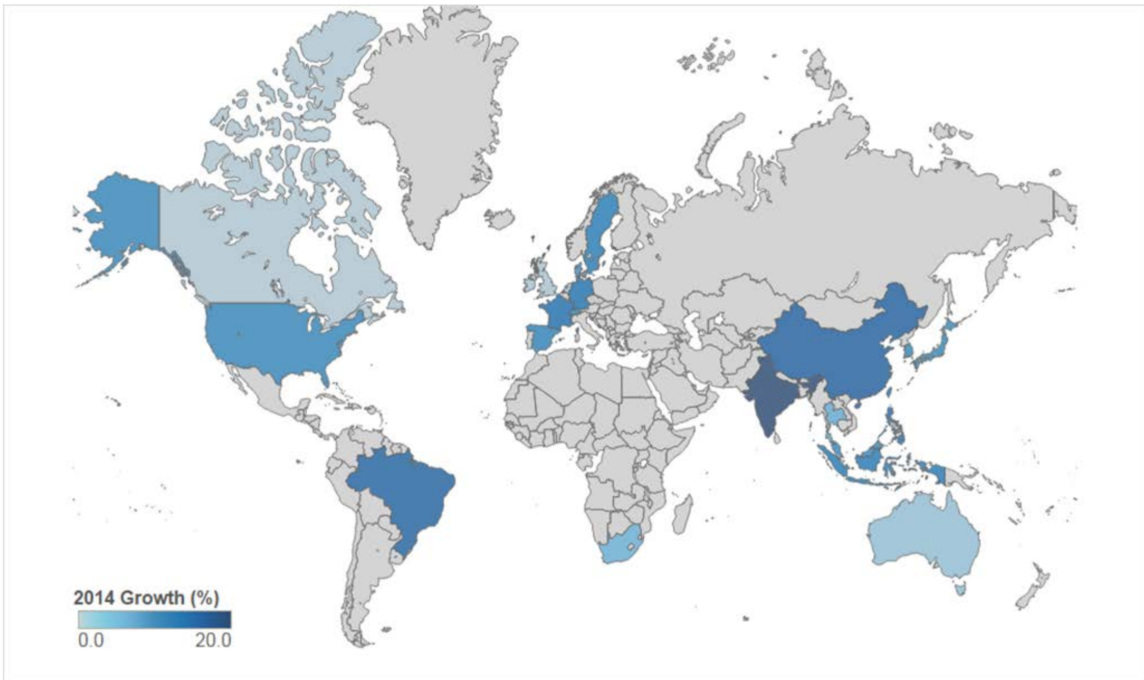
New Zealand's international tourism market is in good health. 2014 outperformed the solid performance of 2013, with total spend across all markets up 13.2 per cent in the year to December 2014. Both volume (visitor arrivals) and value (visitor spend) drivers are now contributing to growth. More people are coming and spending more each trip.

2.1 Recent performance

Visitor arrivals increased 5.3 per cent (or 143,000 extra visitors) in the year to December 2014. Visitor volumes from emerging markets and some advanced economies have grown rapidly in the last year (see Figure 1). The number of Chinese visitors continues to grow, and, compared to previous years, they are now staying longer.

Value has also lifted, with average spend per trip up 7 per cent (to $2,900) in 2014. Visitors from the US are boosting the contribution to overall value, with total spend up almost a third in 2014; and Chinese visitor spend is up 49.6 per cent in the last year.

Figure 1: Growth from New Zealand's top visitor markets has been positive over 2014



Source: Growth in visitor arrivals to NZ, year ending December 2014, Statistics New Zealand

2.2 Outlook to 2021

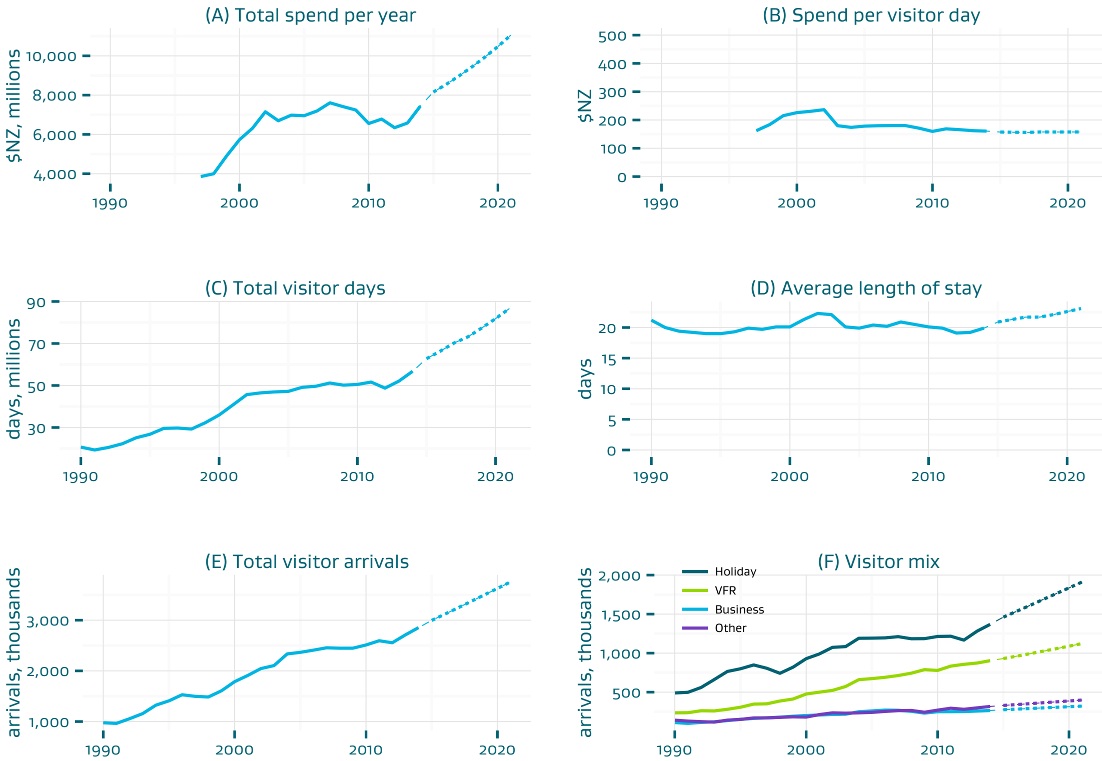
The tourism sector looks well-positioned to capture opportunities from several markets. The outlook to 2021 is very positive and while there is a risk of an economic downturn in China, the central forecast scenario suggests China will be New Zealand's largest market in terms of expenditure within the next 7 years.

- Visitor arrivals to New Zealand are expected to grow 4 per cent a year, reaching 3.8 million visitors in 2021 from 2.9 million in 2014. The number of international holidaymakers has been flat in recent years but is expected to improve rapidly over the forecast period.
- Total international spend is expected to reach $11.1 billion in 2021, up nearly 48.5 per cent on 2014 total spend. Spending in 2015 is expected to surpass the pre-GFC high of $7.6 billion in 2007. Volume is playing a role but increasingly value is contributing to the bottom-line. Although spend per day has been flat or falling for several years now and forecast to decline slightly, trends are showing visitors are staying longer and spending more per trip, lifting value overall.
- Australia is New Zealand's largest visitor market, providing over 1.2 million visitors in 2014. This market will continue to be healthy and looks set to grow by 3 per cent a year to 2021.
- We expect strong visitor growth from China and a maturing of this market towards longer stays. There could be shocks to the Chinese economy along the way, and one of the scenarios in this report (refer to section 6.1), explores the possibility of how such a shock could play out. As an example, a shock to the Chinese economy that reduces its economic growth to half that of what it is now, is estimated to reduce the forecast of Chinese visitors to New Zealand from 571,000 visitor arrivals that are currently predicted in 2021, to 435,000 instead. This scenario, however, still equates to a 7.3 per cent annual growth for China (compared with the central scenario growth rate of 11.6 per cent per year). This growth still far exceeds the growth rate forecast in other key markets.
- The impact of a strong New Zealand dollar looks much weaker than expected. New Zealand has just experienced two consecutive years of strong growth in both visitor arrivals and spending during a time when we expected the strong New Zealand dollar to weigh heavily on the outlook. Exceptionally strong growth from emerging markets, particularly China, and a boost from US visitors as the US economy strengthens are two explanatory factors.
- The sharp decline in oil prices, which started in the second half of 2014 has helped boost international tourism. We expect the fall in prices to hold across 2015 and 2016, but to creep upwards in future years. Cheaper oil should mean cheaper airfares, and this will be a contributing factor to boost visitor arrivals to New Zealand.
- The forecasts provide a baseline for what will happen 'if things keep going this way'. Marketing and visitor experience will, of course, continue to play an important role - as well as airline routes and changes in airline capacity. The forecasts can be used to help industry plan strategically, and are by no means setting targets for specific markets. MBIE will continue to update the forecast outlook annually.

2.3 Outlook for all markets

Summary	2014	2021	
Total spend ($m)[1]	7,445	11,055	↑
Total visitors (000s)[2]	2,854	3,755	↑
Total days (000s)[2]	56,765	86,643	↑
Spend per day ($)[3]	161	158	↓
Ave length of stay (days)[2]	20	23	↑

Figure 2: Summary of forecasts: All

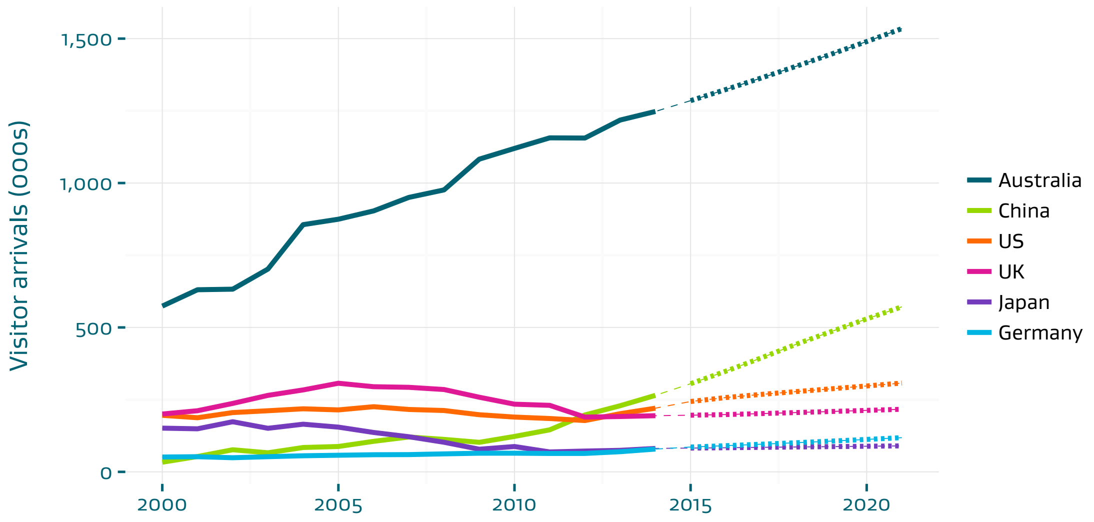


									GROWTH	
Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**	**Annual[5]**
Total spend ($m)[1]	7,445	8,155	8,549	8,982	9,443	9,938	10,474	11,055	48%	5.8%
Total visitors (000s)[2]	2,854	2,996	3,118	3,243	3,371	3,498	3,626	3,755	32%	4.0%
Total days (000s)[2]	56,765	62,753	66,368	70,231	73,174	77,391	81,856	86,643	53%	6.2%
Spend per day ($)[3]	161	157	157	156	158	158	158	158	-2%	-0.3%
Ave length of stay (days)[2]	20	21	21	22	22	22	23	23	15%	2.0%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics NZ; 3. Derived from International Visitor Survey; 5. Compound Average Growth Rate per year ('14-'21).

New Zealand's biggest markets for visitor arrivals

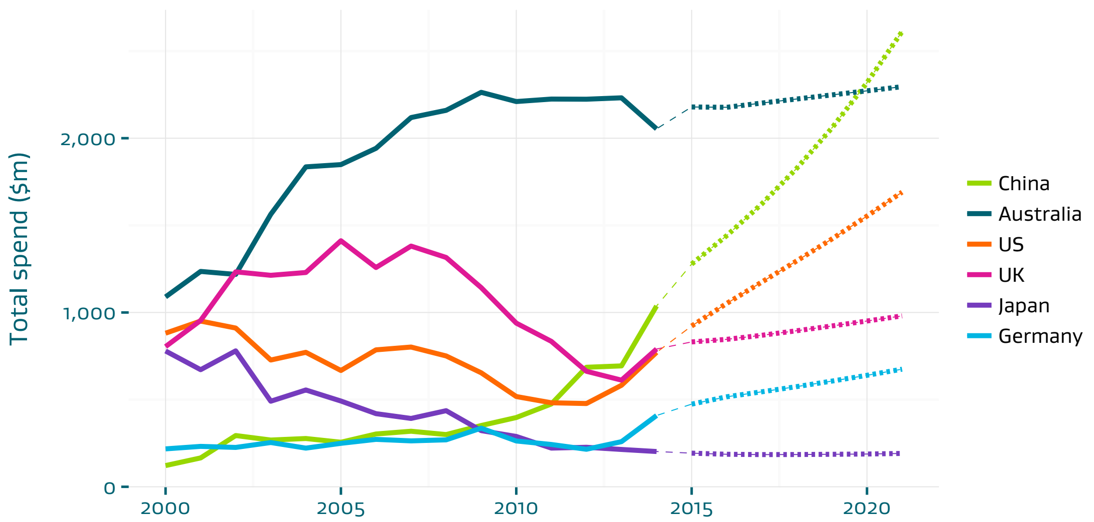
Figure 3: In terms of volume, Australia is projected to continue being New Zealand's largest market



Source: Statistics New Zealand, NZIER

New Zealand's biggest markets for spend

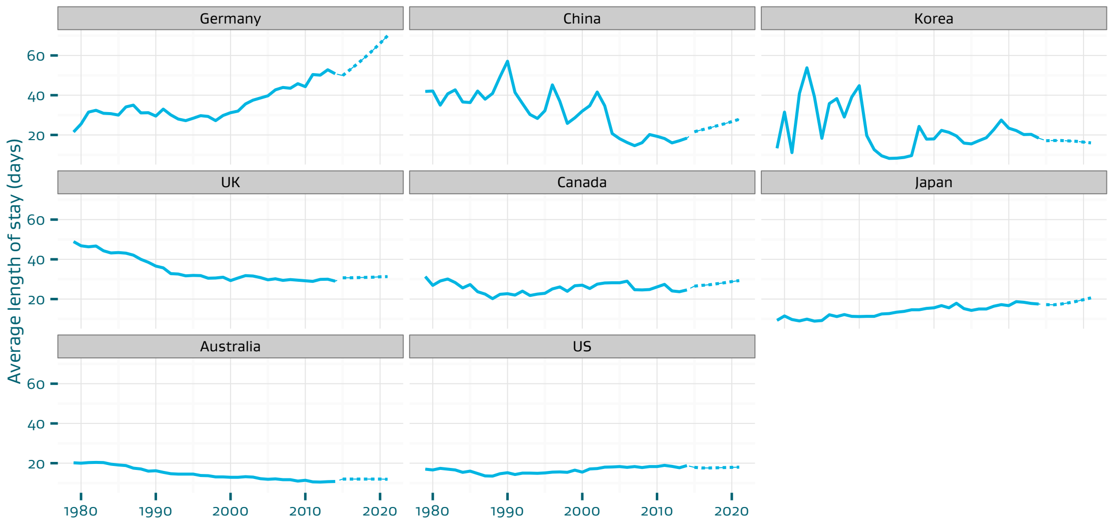
Figure 4: Australians contribute the most to total spend now, but China is likely to overtake by 2020, and the US is showing strong growth



Source: MBIE, NZIER

Average length of stay, comparison across markets

Figure 5: Germans stay the longest in New Zealand, and are likely to continue this pattern



Source: Statistics New Zealand, NZIER

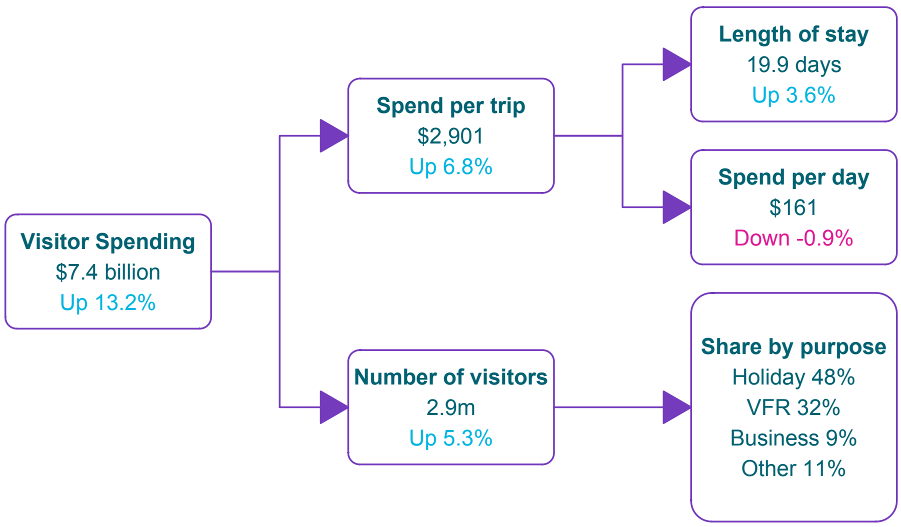
3. Fundamental drivers

3.1 Recent drivers

Both volume and value drivers contributed to a strong increase in total spend of international visitors to New Zealand.

Figure 6 below illustrates last year's growth for international visitors to New Zealand in terms of both volume and value.

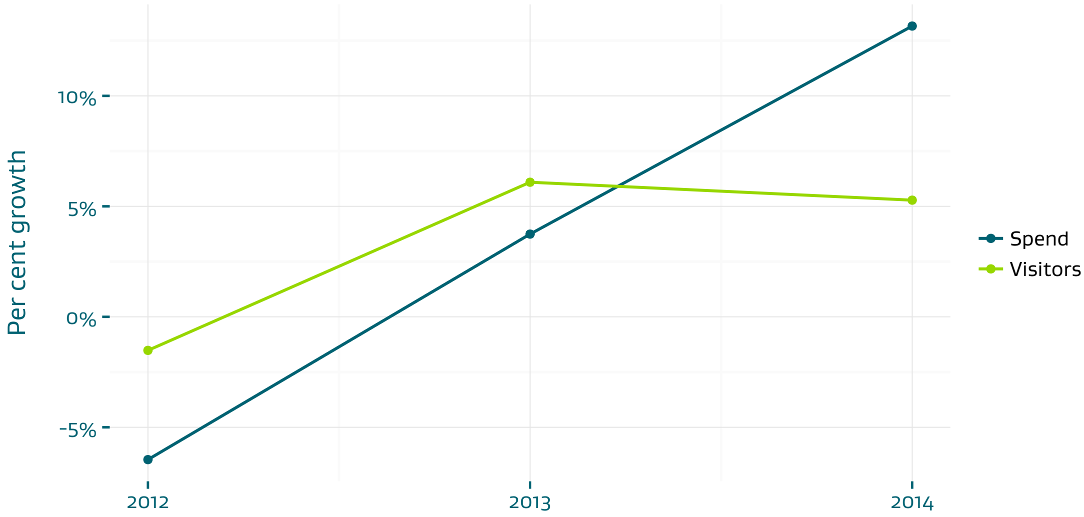
Figure 6: Many factors are working in tandem to lift total spend. Volume and value growth, year ending December 2014



Source: Statistics New Zealand, MBIE

Figure 7 shows the percentage year-on-year growth for both spend and visitor arrivals. While visitor numbers grew by 5.3 per cent in 2014, total spend was up proportionately more, by 13.2 per cent in the same period. Total spend reached $7.4 billion by the end of 2014, almost at its pre-GFC high of $7.6 billion in 2007.

Figure 7: Growth in spend has overtaken growth in visitor arrivals. Percentage year-on-year growth in total spend and visitor arrivals

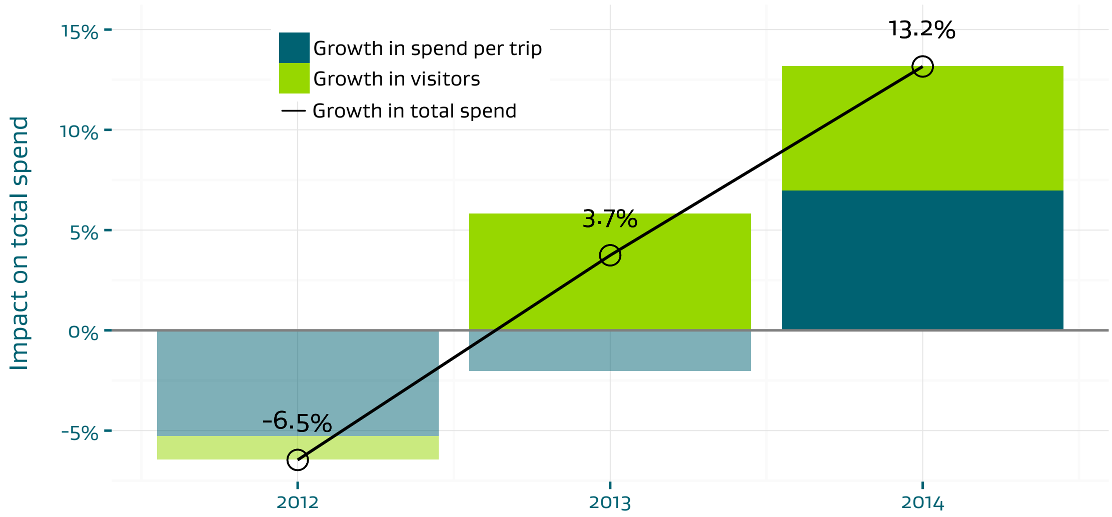


Source: International Visitor Survey, MBIE

Many factors came together to increase spend in 2014. Figure 8 illustrates the influence of both volume and value drivers in total spend growth over the last three years:

- After the GFC, in 2012, the drop in total spend of 6.5 per cent was mostly influenced by visitors spending less per trip.
- In 2013, growth in visitor arrivals dominated the scene, lifting total spend by 3.7 per cent.
- Last year, value (as measured by spend per trip) played a much more influential role in lifting total spend (by 13.2 per cent in 2014).

Figure 8: Both volume and value drove year-on-year growth in total spend in 2014



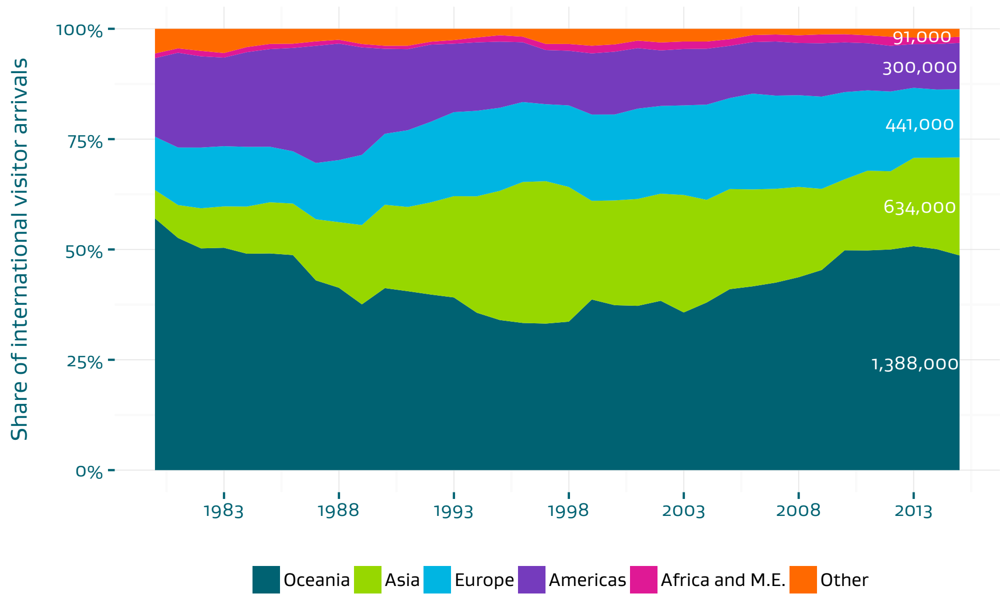
Source: International Visitor Survey, MBIE

The increase in spend per trip is driven by visitors staying longer. Average length of stay was up 3.6 per cent in 2014, to 19.9 days.

Figure 9 shows the historic share of international visitor arrivals to New Zealand over time. While visitors from Oceania (mostly Australians) made up the largest share of New Zealand's international visitors up to 2014, is it evident that Asian markets are growing proportionately more than European markets in recent years.

Standout markets include the US (arrivals up 9.5 per cent in 2014) and China (arrivals up 15.7 per cent in 2014, having grown 82 per cent in the last three years). Arrivals from Australia were weaker than expected, up only 2.4 per cent, compared to the 5.4 per cent growth experienced in 2013.

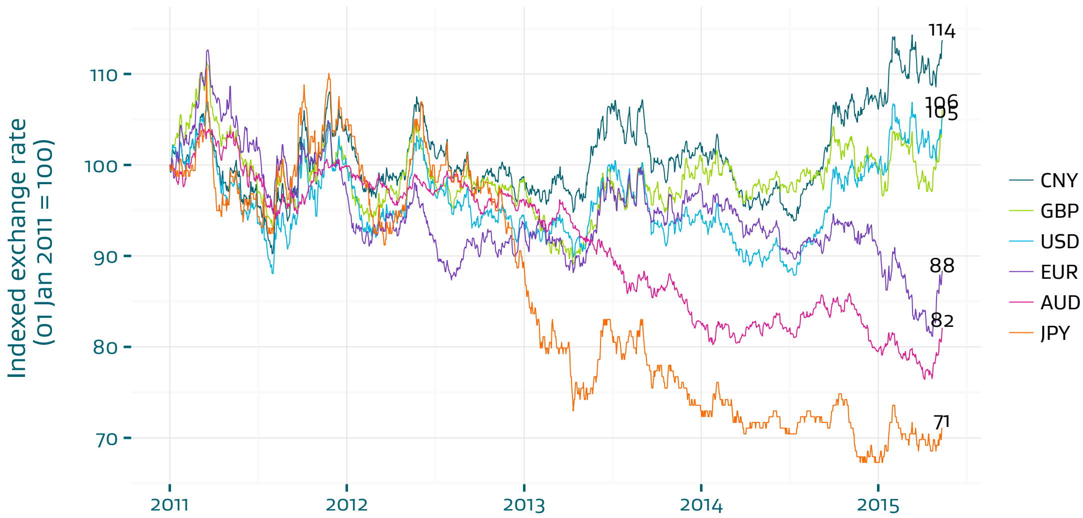
Figure 9: Arrivals from Asian markets are growing



Source: Statistics New Zealand

The sector is growing at rates not seen for several years, at a time when the strong New Zealand dollar might be expected to crimp growth (see Figure 10).

Figure 10: Exchange rate indexes for key visitor markets



Source: Oanda
Values less than 100 indicate the currency in question buys less NZD than in 2011

3.2 Future drivers

Many factors drive the propensity to travel overseas, including:

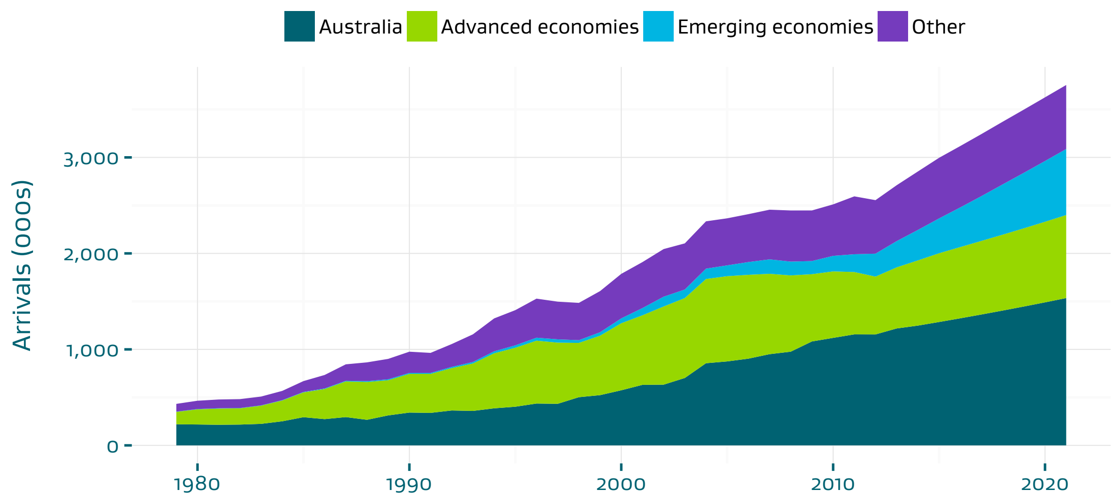
- changes in disposable income
- exchange rates (in determining realised spending)
- influence of destination marketing
- airline route availability and capacity.

Delivering a quality visitor experience plays a critical role in lifting visitor spend and increasing the likelihood to return and/or recommend New Zealand as a destination to others.

■ Volume

Figure 11 below shows volume growth over the forecast period will come from both advanced and emerging economies.

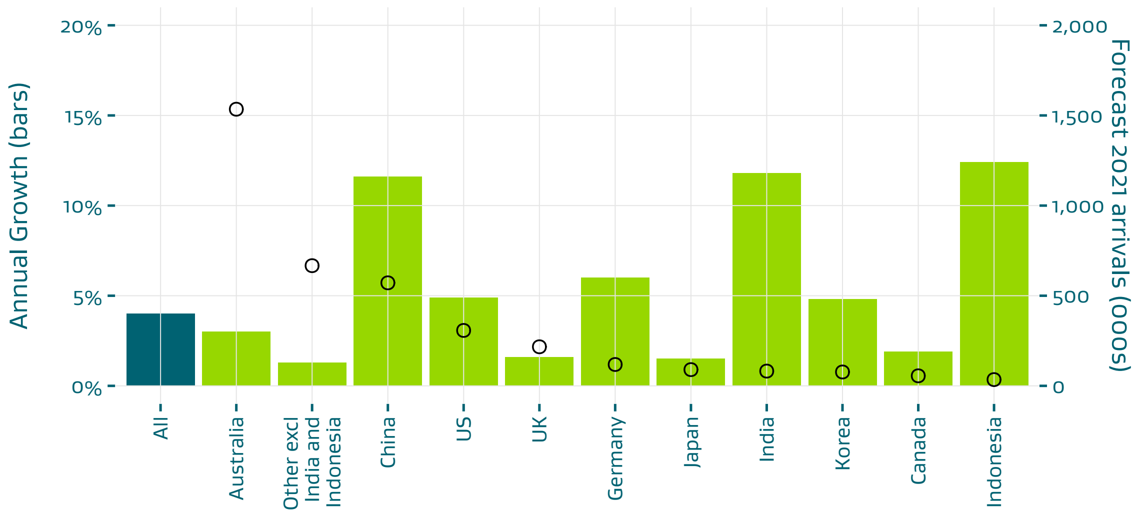
Figure 11: Both advanced and emerging economies will drive visitor growth over the forecast period



Source: Statistics New Zealand, NZIER
Advanced economies: UK, US, Canada, Germany, Japan, Korea
Emerging economies: China, India, Indonesia

The annual growth rate for Chinese visitors is expected to outstrip all other advanced economies. Figure 12 shows the forecasted year-on-year growth for all markets (bars), alongside their forecasted arrival numbers (circles). In terms of absolute volume, Australia will still be New Zealand's largest market for arrivals over the forecast period, but growth in visitors from China outstrips all other advanced economies. Visitor growth from emerging markets, India and Indonesia, will be significant, albeit from a much smaller base of visitors.

Figure 12: China growth outstrips advanced economies



Source: NZIER
Bars show annual growth; circles show arrivals forecast in 2021

Advanced economies

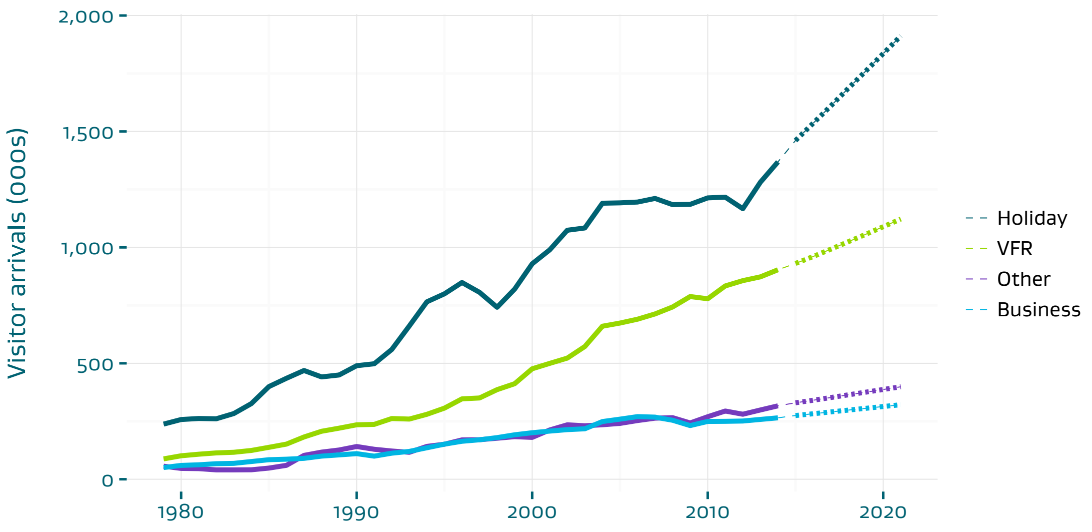
Currently the US economy is much more robust than in recent years, with wages starting to lift for the first time since the GFC. Stock markets continue to rise, buoyed by low interest rates. Demand for an international holiday experience, which paused during the GFC, once again is driving visitor numbers to New Zealand.

Other advanced economies are also improving. In the UK, GDP per capita is on the rise and labour markets are slowly recovering too. The risks around sovereign default in the euro area are much lower than 18 months ago. Growth in some countries, such as Germany, is strengthening but growth in the euro area will be lower than in other regions. Japan and South Korea also look set to have stronger visitor arrivals than in previous years.

Emerging economies

Growth in visitor arrivals from emerging economies is complementing growth from advanced economies. China is already New Zealand's second largest market in terms of visitor arrivals. India, Indonesia and other emerging markets in South America hold potential and are growing rapidly albeit from a low base of visitor arrivals. We can expect these markets to boost demand in the medium to long-term.

Figure 13: Growth of international visitors will be driven by holiday and VFR visitors



Source: Statistics New Zealand, NZIER

Much of New Zealand's future growth is expected to come from holidaymakers and those visiting friends and relatives (see Figure 13). This is a critical dynamic. The number of international holidaymakers has been flat in recent years but is expected to improve rapidly over the forecast period.

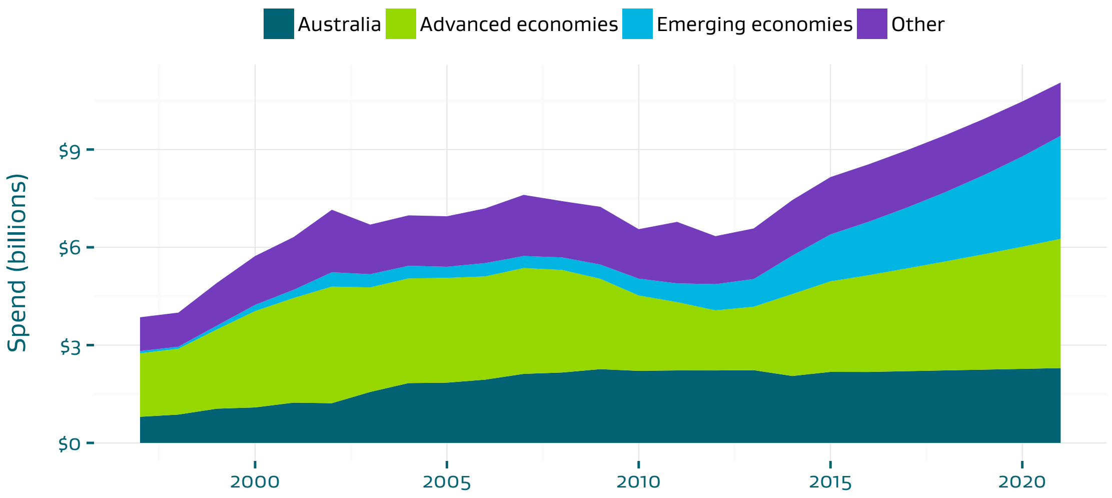
■ Value

Despite total spend from all visitor markets forecast to increase 48.5 per cent to 11.1 billion by 2021, average spend per day is forecast to fall slightly. For several years now, spend per day by visitors to New Zealand has been flat or falling. A number of factors are influencing this, including the soaring New Zealand dollar making New Zealand's tourism product less price competitive. Domestic costs of supplying tourism services such as restaurant meals can make New Zealand products feel expensive relative to the costs of services in the home country. Having said this, total spend is 17.4 per cent higher than it was two years ago. Spending in 2015 is expected to surpass the pre-GFC high of $7.6 billion in 2007.

The main driver for increased spend is that visitors are staying longer. Some markets are playing a larger role than others in this. For example, visitors from China are rapidly changing their travel patterns visiting more regions and taking on more activities. These factors lifted the average length of stay of this market by 15 per cent over the last two years, to 18.4 days, a trend we expect to continue.

Increasingly, emerging economies are boosting growth in value and not just volume. Figure 14 shows that by 2021, visitors from emerging economies such as China, India and Indonesia will contribute a large proportion (28.6 per cent) of the total visitor spend.

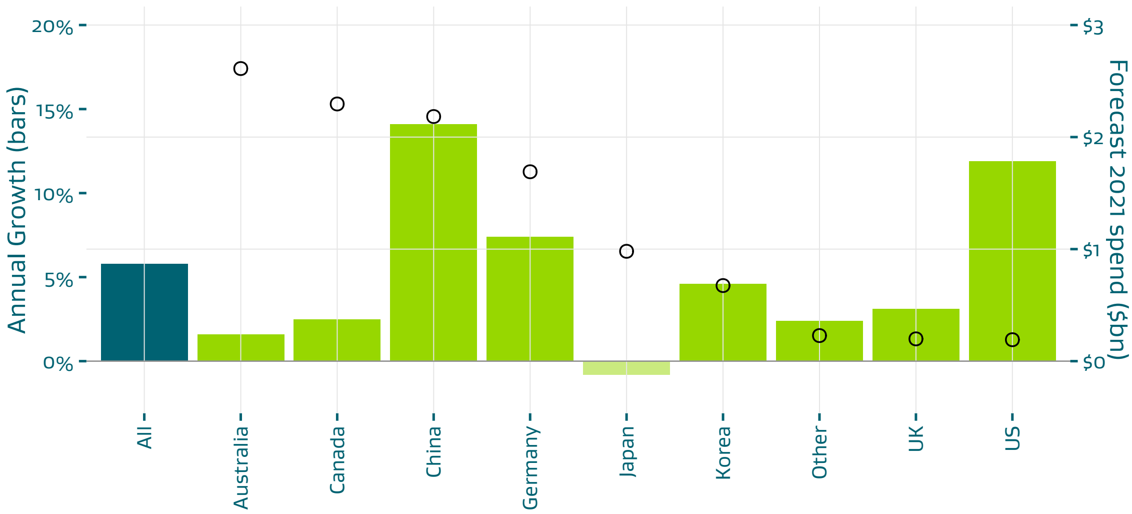
Figure 14: Emerging economies will drive growth in spend



Source: Statistics New Zealand, NZIER
Advanced economies: UK, US, Canada, Germany, Japan, Korea
Emerging economies: China, India, Indonesia

Figure 15 below shows the annual year-on-year forecasted growth for spend across all markets (bars), alongside their forecasted spend (circles). In terms of absolute volumes, China will be New Zealand's largest market for spend in 2021, as well as a fast-growing one. The US, Germany and India are also forecast to have significant growth in total spend.

Figure 15: China is forecast to be New Zealand's largest market in terms of expenditure



Source: NZIER
Bars show annual growth; circles show spend forecast in 2021

4. Outlook for key markets

The following sections provide forecasts and commentary on each of our key markets:

- Australia
- Asia
  - China
  - Japan
  - South Korea
- Europe and Americas
  - United Kingdom
  - United States of America
  - Canada
  - Germany

Interactive web tool and market summaries

Available on MBIE's website is an interactive web tool to explore forecasts data by market, as well as downloadable one-page summaries for each market. These can be found here: http://www.med.govt.nz/sectors-industries/tourism/tourism-research-data/forecasts.

Other markets

Visitor markets classified within 'other' are an important source of visitors for New Zealand. These include emerging markets India and Indonesia, as well as markets in South East Asia (e.g. Thailand, Singapore and Malaysia), and in Latin America (e.g. Brazil and Argentina).

In the year ending December 2014, 'other' markets made up 24.8 per cent of total spend to New Zealand, equivalent to $1,844 million, and this is expected to grow 18.4 per cent to $2,183 by the year 2021. Total visitors from 'other' markets are expected to grow 27.4 per cent over the forecast period to 783,000 arrivals in 2021.

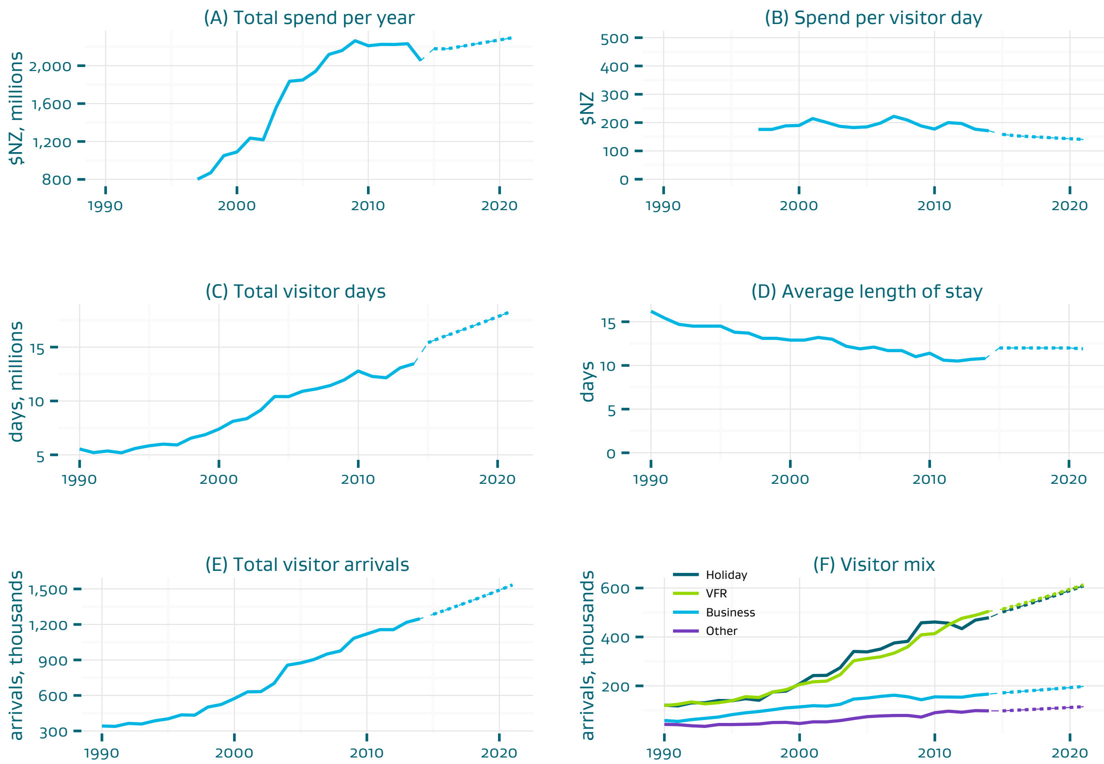
A full one-page summary of forecasts for 'other' markets can be found in Appendix A.

4.1 Australia

Summary	2014	2021	
Total spend ($m)[1]	2,054	2,296	↑
Total visitors (000s)[2]	1,248	1,535	↑
Total days (000s)[2]	13,455	18,328	↑
Spend per day ($)[3]	171	140	↓
Ave length of stay (days)[2]	11	12	↑

Visitor market characteristics[4]	
GDP per capita (PPP)	43,202
Population (millions)	23.1
Outbound departures (millions)	8.8
Outbound spend (USD mn)	28,376

Figure 16: Summary of forecasts: Australia

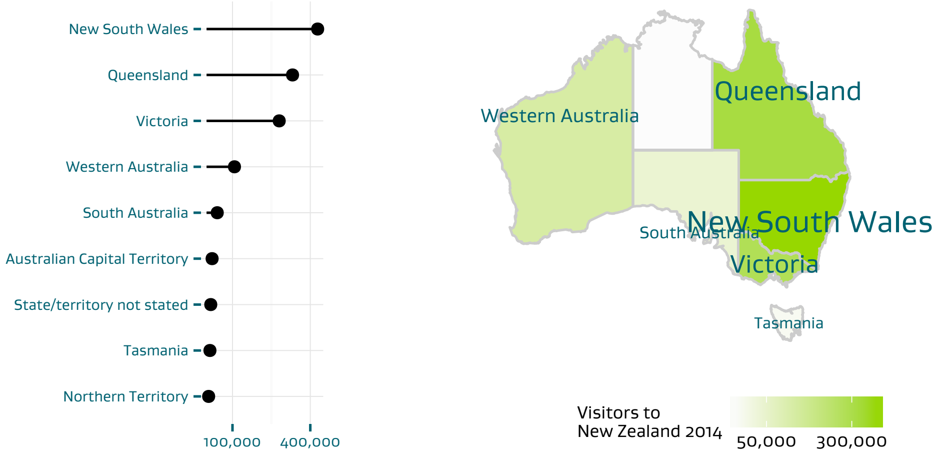


Year	2014	2015	2016	2017	2018	2019	2020	2021	GROWTH Total	GROWTH Annual[5]
Total spend ($m)[1]	2,054	2,179	2,177	2,202	2,225	2,248	2,272	2,296	12%	1.6%
Total visitors (000s)[2]	1,248	1,285	1,324	1,363	1,404	1,446	1,490	1,535	23%	3.0%
Total days (000s)[2]	13,455	15,405	15,915	16,374	16,843	17,324	17,819	18,328	36%	4.5%
Spend per day ($)[3]	171	159	153	151	148	145	143	140	-18%	-2.8%
Ave length of stay (days)[2]	11	12	12	12	12	12	12	12	9%	1.3%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics NZ; 3. Derived from International Visitor Survey; 4. World Bank data (http://data.worldbank.org/indicator); 5. Compound Average Growth Rate per year ('14-'21).

Australia is New Zealand's only major short-haul market and provides many of our international visitor arrivals. Many Australians visit friends and relatives and tend to come more frequently but stay for shorter periods than visitors from long-haul markets. Figure 17 shows the states where most of New Zealand's Australian visitors originate from.

Figure 17: New South Wales is the state that provides most Australian visitors to New Zealand, followed by Queensland and Victoria



Source: Visitor arrivals to New Zealand by Australian state, year to December 2014, Statistics New Zealand

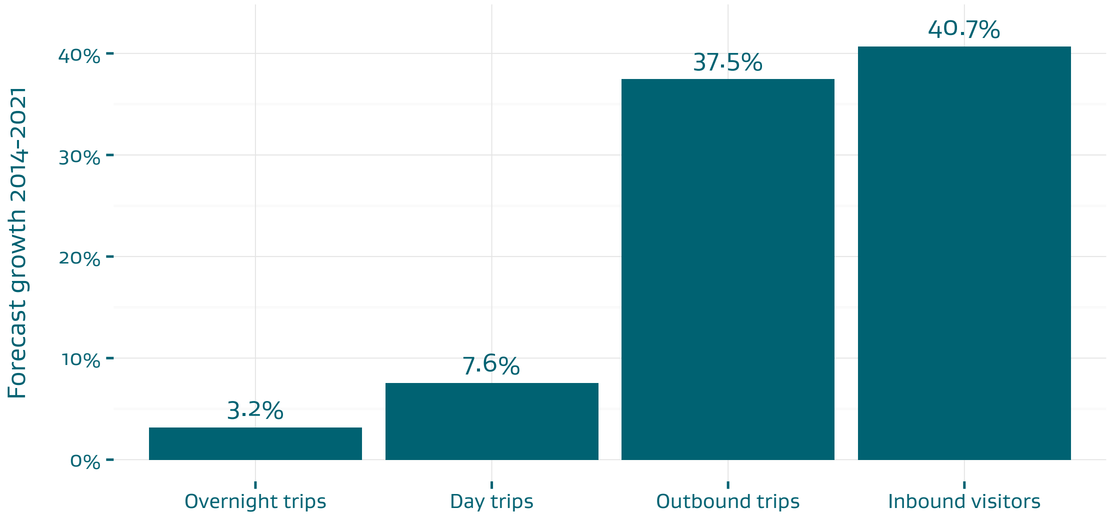
Currently the Australian economy is weak, reflected in an Australian dollar that can buy far fewer New Zealand goods and services than in recent years. Growth in arrivals from Australia halved in 2014, down to 2.4 per cent from 5.4 per cent only a year earlier.

In the short-term, we can expect moderate growth in the Australian market. Long-term drivers include the movement of New Zealanders, living in Australia, across the Tasman and subsequent growth of travellers visiting friends and relatives. However, competition for Australian outbound from Asian markets is intensifying. Looking forward, visitor growth from Australia is likely to be lower than in previous periods.

■ Forcasts and drivers

- When their economy is weak, Australians tend to forego more expensive long-haul holidays and treat New Zealand more like a cheaper domestic holiday, mitigating the impact on visitor arrivals of a downturn in the Australian economy. Since the GFC, Australians have preferred to holiday abroad rather than take domestic holidays (see Figure 18).

Figure 18: Australian forecasts show a trend towards more international holidays, with strong growth in outbound from Australia (as well as very strong growth in inbound)

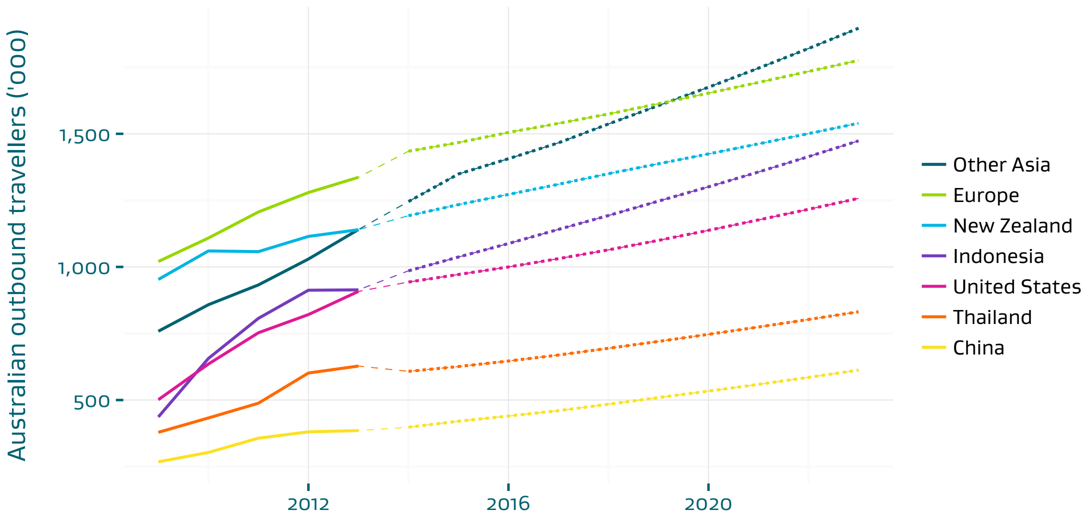


Source: Tourism Research Australia

- Changes in air capacity can have a strong influence on arrivals from Australia, especially if they result in increased competitive pressure on air fare prices.
- Spending was down over 7 per cent in 2014 because of the much weaker Australian dollar. We expect that weakness to continue in to 2015 with Australian households being cautious with spending. Flat or falling interest rates will also lower the Australian dollar. Australia's currency depreciation is partly due to prices for Australians key export commodities being driven lower by ongoing weakness and uncertainty in China's real estate market.
- Unlike during the GFC, when the Australian Government spent up to boost consumption, now the Government books are under pressure to return to surplus. The only avenue to boost consumption and investment is for the Reserve Bank of Australia to reduce interest rates, but that will weaken the Australian dollar.

- The longer-term outlook for Australia is more optimistic. The Australian economy will rebound and the movement of New Zealanders (living in Australia) across the Tasman will continue to boost visitor arrivals. The broadening appeal of new and growing Asian markets temper longer-term possibilities (see Figure 19).

Figure 19: Asian destinations are providing more competition

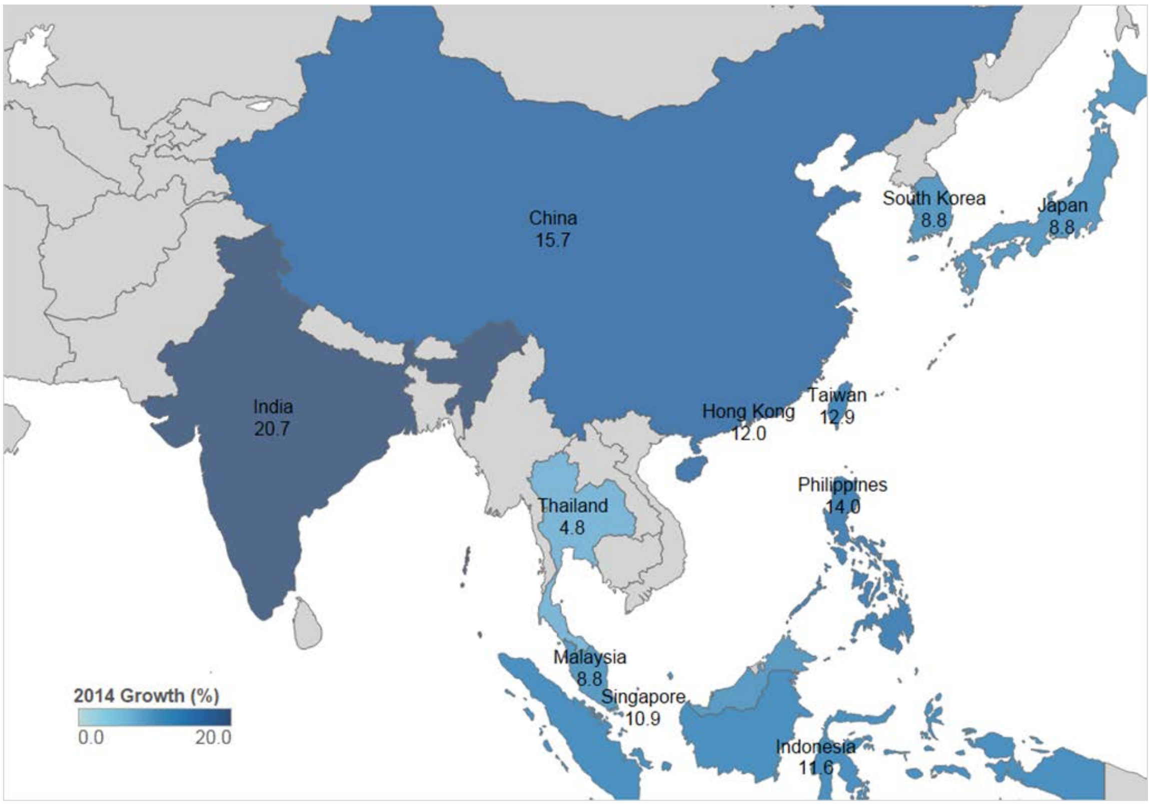


Source: Outbound for Australian visitors, Tourism Research Australia

4.2 Asia

Outbound tourism from China is changing the profile of New Zealand's international tourism markets. Recent sustained visitor growth has coincided with expanding growth in spend. Whilst other Asian markets are also moving ahead, it is hard to go past the remarkable growth of Chinese visitor arrivals, which are forecast to exceed half a million by 2020; and total spend from the China market is forecast to overtake Australia's total spend by 2020, albeit numbers of Australian visitors will be threefold that of the Chinese, at just under 1.5 million visitors by 2020. Other Asian markets are also showing growth, albeit from a smaller visitor base than the dominant China market.

Figure 20: Many Asian countries are growing strongly, especially China



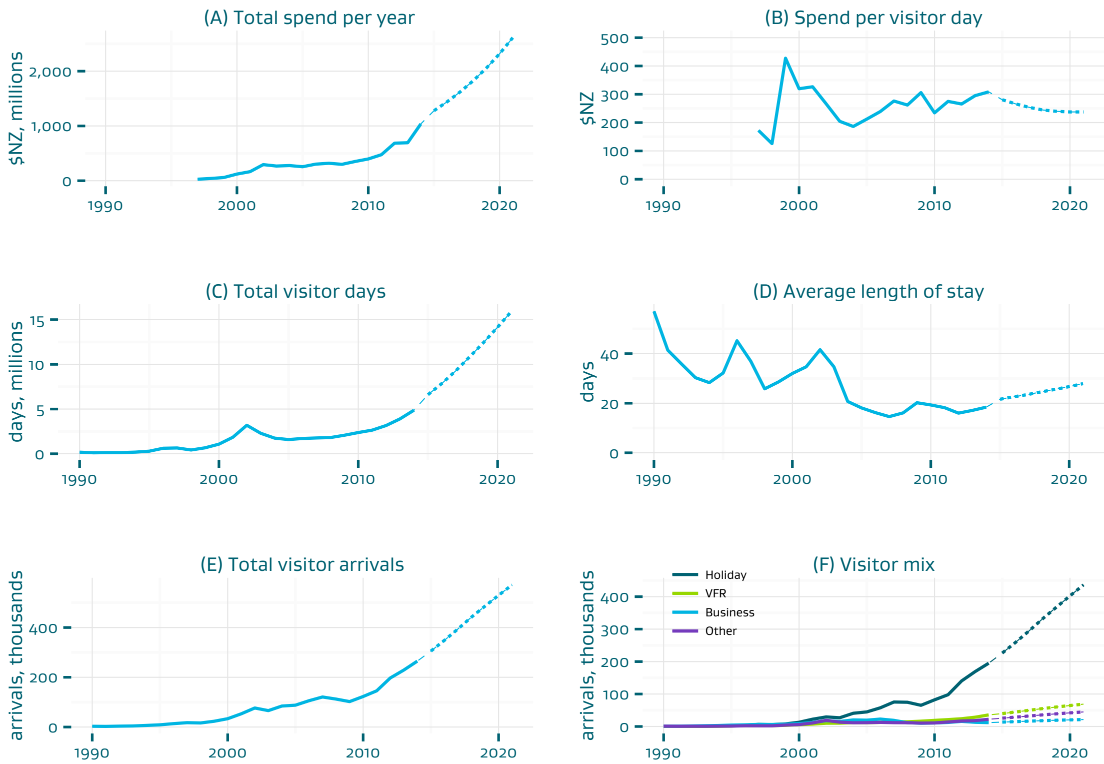
Source: Growth in visitor arrivals to NZ, year to December 2014, Statistics New Zealand

China

Summary	2014	2021	
Total spend ($m)[1]	1,037	2,612	↑
Total visitors (000s)[2]	265	571	↑
Total days (000s)[2]	4,874	15,935	↑
Spend per day ($)[3]	309	238	↓
Ave length of stay (days)[2]	18	28	↑

Visitor market characteristics[4]	
GDP per capita (PPP)	11,907
Population (millions)	1,357.4
Outbound departures (millions)	98.2
Outbound spend (USD mn)	128,576

Figure 21: Summary of forecasts: China



Year	2014	2015	2016	2017	2018	2019	2020	2021	GROWTH Total	GROWTH Annual[5]
Total spend ($m)[1]	1,037	1,278	1,441	1,623	1,828	2,059	2,319	2,612	152%	14.1%
Total visitors (000s)[2]	265	305	348	394	442	486	530	571	115%	11.6%
Total days (000s)[2]	4,874	6,601	7,860	9,277	10,849	12,451	14,154	15,935	227%	18.4%
Spend per day ($)[3]	309	281	266	254	244	240	238	238	-23%	-3.7%
Ave length of stay (days)[2]	18	22	23	24	25	26	27	28	56%	6.5%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics NZ; 3. Derived from International Visitor Survey; 4. World Bank data (http://data.worldbank.org/indicator); 5. Compound Average Growth Rate per year ('14-'21).

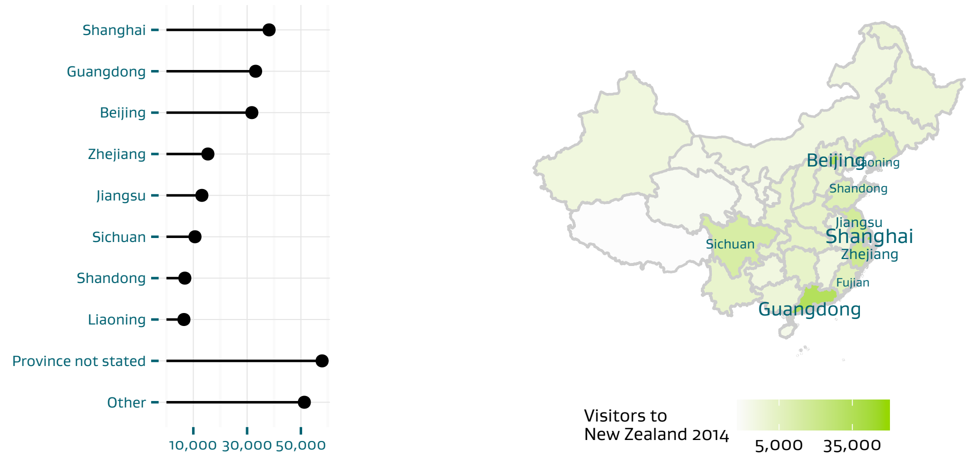
Last year Chinese visitors spent over a billion dollars in the New Zealand economy. Provided the New Zealand tourism industry can continue to deliver a great visitor experience for this market and economic conditions in China continue to hold, we can expect outstanding growth to persist.

The China market goes from strength to strength, the pace of change is extremely rapid and this continues to present the biggest challenge and opportunity for industry.

In 2014, visitor arrivals grew 15.7 per cent, to 265,000. Spend per day was up 4.6 per cent to $309 per day. Average length of stay was up 7.6 per cent (to 18.4 days). All these factors combined to increase total spend from China by 49.6 per cent in the last year.

Figure 22 shows the provinces where New Zealand's Chinese visitors originate from. Airlines continue to increase their capacity on direct routes from China to New Zealand and the question is whether demand (both ways) will continue to meet these capacity increases, especially in quieter seasons. Many visitors from China also travel to New Zealand via connecting flightrs through hubs in, for example, Australia and Singapore.

Figure 22: Shanghai, Guangdong, and Beijing are the top Chinese provinces for visitor arrivals to NZ

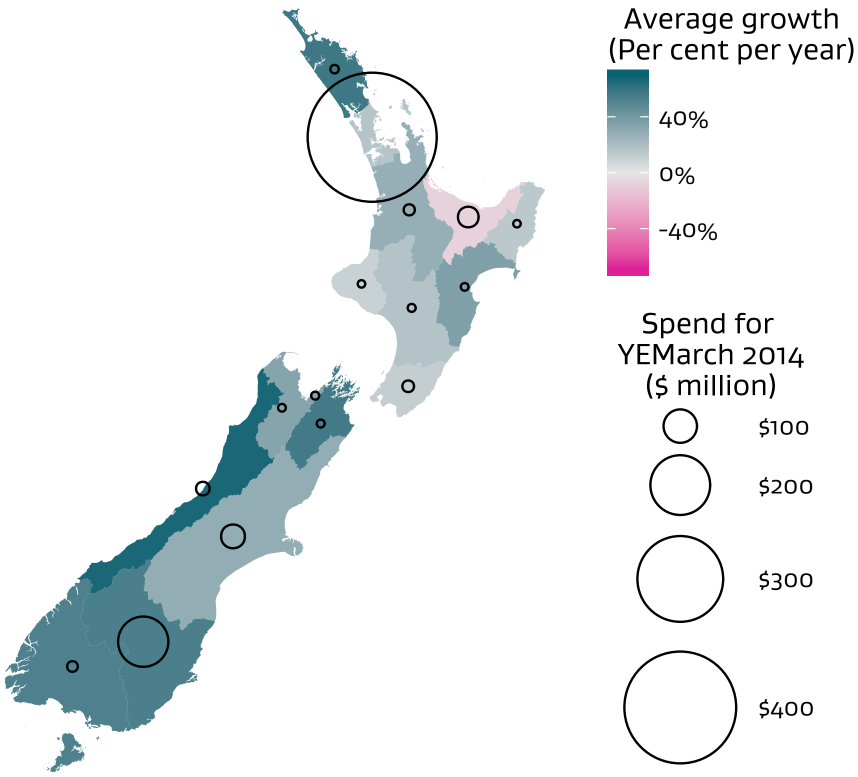


Source: Visitor arrivals to New Zealand by Chinese province, year to December 2014, Statistics New Zealand

■ Forecasts and drivers

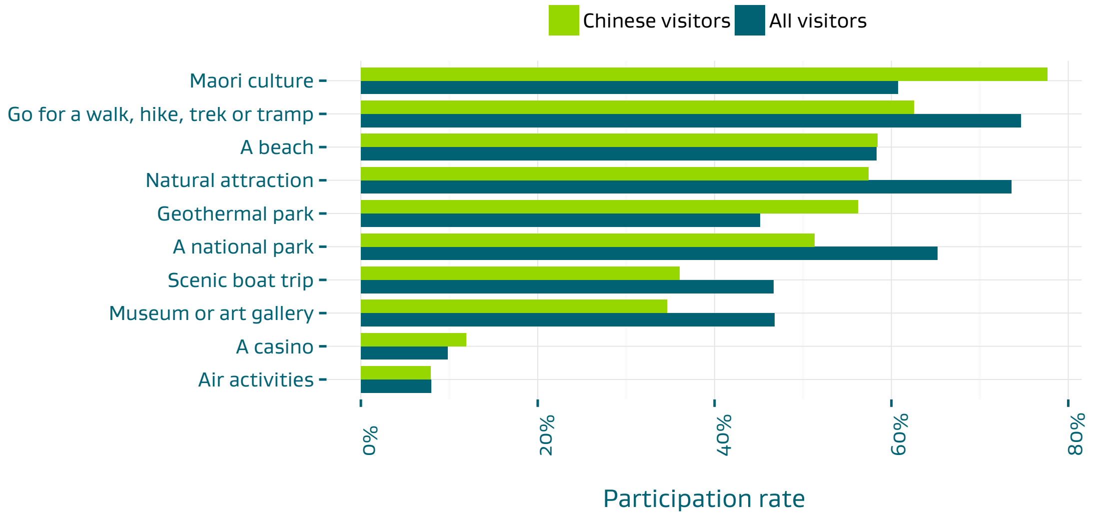
- There are an increasing proportion of free and independent travellers (FITs) from the China market - these visitors tend to stay much longer than visitors on group shopping tours. This, in turn, has helped lift spend from this market.
- With more FITs from China, the travel patterns of this market are changing, with Chinese visitors spreading further across New Zealand's regions (see Figure 23). Chinese visitors are also engaging in a wider range of activities - out of the 72 activities reported in the International Visitor Survey, Figure 24 show the most and least popular activities undertaken by Chinese visitors in 2014, compared with participation rates of all international visitors. The changes in travel patterns for the China market are having a positive impact on length of stay and spend for this market.

Figure 23: The Chinese are visiting more regions than before, with strong growth in spend especially in South Island regions



Source: MBIE

Figure 24: Participation rates for popular activities undertaken by Chinese holidaymakers, and how rates compare with all international holidaymakers



Source: MBIE

- Chinese economic growth shifted down a gear in 2014 and is likely to show sub-7 per cent growth in the next two to three years. Growth is reorienting itself towards consumption and services and away from exports; factors that encourage rather than hinder Chinese households from undertaking international travel. We expect visitor arrivals from China to continue to grow strongly over the forecast horizon.

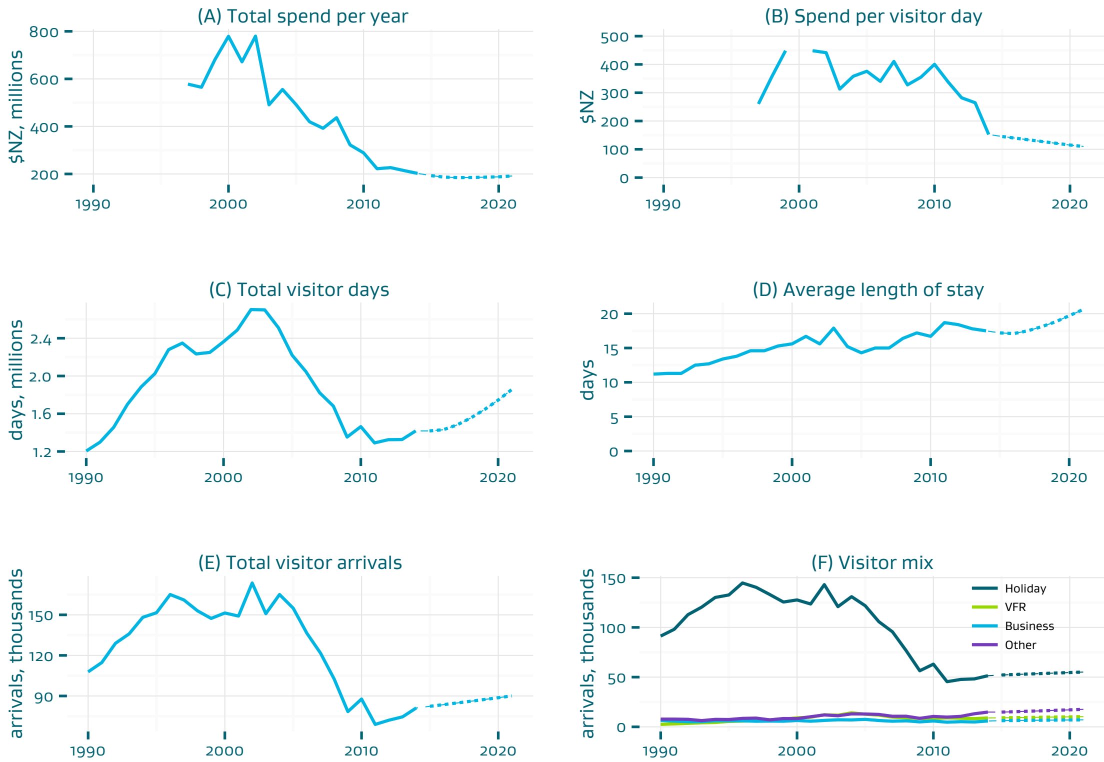
- There is the possibility of a marked slowdown in the Chinese economy, due to overstretched local government debt and the chance of extended real estate markets eventually correcting themselves. Later on in this report, there are scenarios of international arrivals to New Zealand based on varying growth predictions for the China market.

Japan

Summary	2014	2021	
Total spend ($m)[1]	202	191	↓
Total visitors (000s)[2]	81	90	↑
Total days (000s)[2]	1,418	1,857	↑
Spend per day ($)[3]	152	110	↓
Ave length of stay (days)[2]	18	21	↑

Visitor market characteristics[4]	
GDP per capita (PPP)	36,223
Population (millions)	127.3
Outbound departures (millions)	17.5
Outbound spend (USD mn)	21,861

Figure 25: Summary of forecasts: Japan



Year	2014	2015	2016	2017	2018	2019	2020	2021	GROWTH Total	GROWTH Annual[5]
Total spend ($m)[1]	202	193	187	185	185	186	188	191	-5%	-0.8%
Total visitors (000s)[2]	81	82	84	85	86	87	89	90	11%	1.5%
Total days (000s)[2]	1,418	1,418	1,430	1,481	1,554	1,643	1,744	1,857	31%	3.9%
Spend per day ($)[3]	152	145	139	133	127	121	115	110	-28%	-4.5%
Ave length of stay (days)[2]	18	17	17	18	18	19	20	21	17%	2.2%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics NZ; 3. Derived from International Visitor Survey; 4. World Bank data (http://data.worldbank.org/indicator); 5. Compound Average Growth Rate per year ('14-'21).

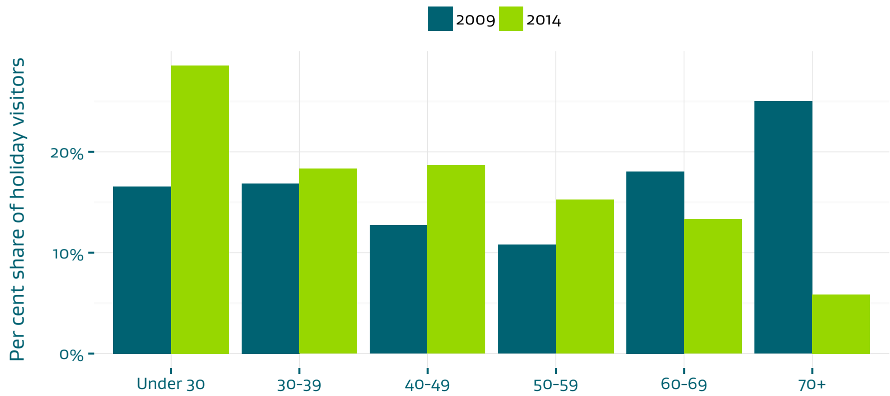
The outlook for Japan is mixed. Visitor growth surged in 2014, up 8.8 per cent on a year earlier, exceeding expectations in last year's forecasts. Although visitor growth was strong, spending decreased by 5.5 per cent over the same period.

The visitors from Japan are increasingly younger and at least for now spend less than older visitors to New Zealand. The Japanese economic recovery remains stagnant and the Yen is 30 to 35 per cent weaker than it was a few years ago, reducing the likelihood of any sustained recovery in spending from this market. We expect Japanese visitor arrivals to post modest growth across the next 7 years.

■ Forecasts and drivers

- Although Japanese visitor arrivals were up 8.8 per cent in 2014, the Japanese economy has been weak, so other factors must be at play to sustain this growth.
- The age distribution of Japanese visitors has shifted towards the younger brackets (see Figure 26), and these visitors spend less than their older counterparts. Encouraging repeat visits provides an opportunity to grow the number of visitors, although the weak Yen likely caps the extent of growth in spend.
- Economic growth in Japan remains very weak at around 0.5 to 1 per cent at the end of 2014 and early 2015.
- The Japanese government is carrying high levels of debt and introduced an additional tax on consumption to boost revenue. This tax slowed the economy to a greater extent than was expected so the government has now pushed out the timing of additional tax increases that are required to reduce debt.

Figure 26: Japanese visitors are now much younger than before



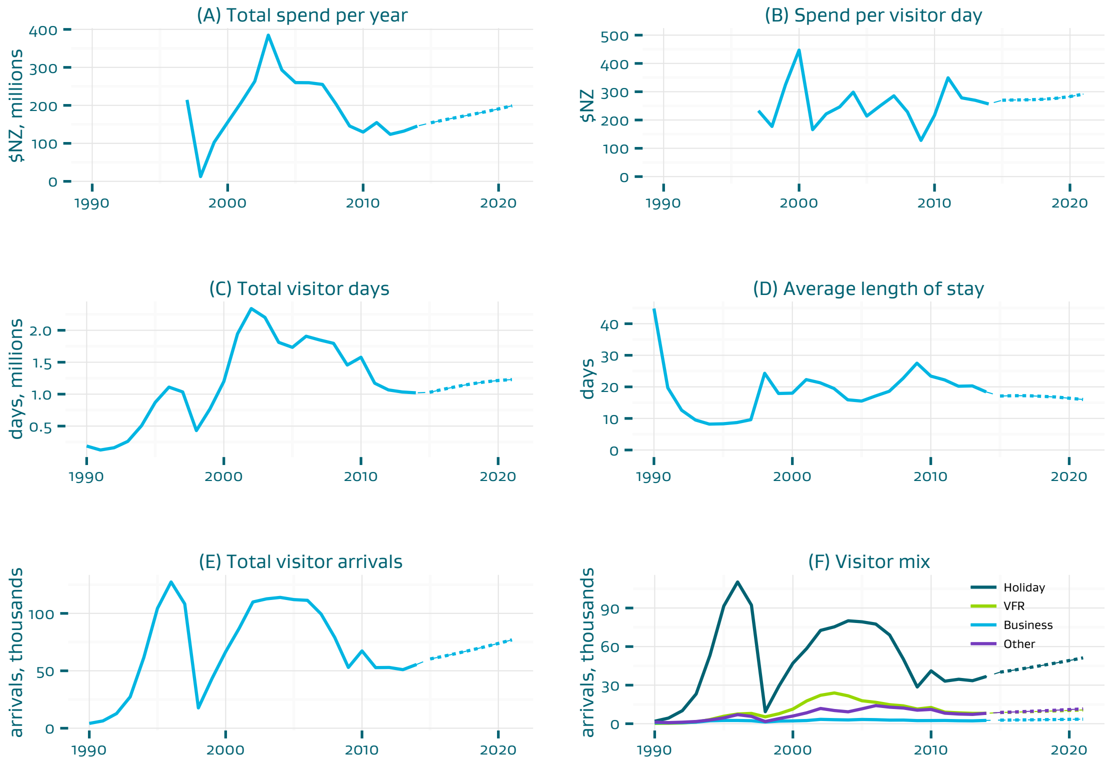
Source: MBIE

South Korea

Summary	2014	2021	
Total spend ($m)[1]	145	199	↑
Total visitors (000s)[2]	55	77	↑
Total days (000s)[2]	1,021	1,229	↑
Spend per day ($)[3]	257	292	↑
Ave length of stay (days)[2]	18	16	↓

Visitor market characteristics[4]	
GDP per capita (PPP)	33,062
Population (millions)	50.2
Outbound departures (millions)	14.8
Outbound spend (USD mn)	21,676

Figure 27: Summary of forecasts: Korea



Year	2014	2015	2016	2017	2018	2019	2020	2021	GROWTH Total	GROWTH Annual[5]
Total spend ($m)[1]	145	154	162	169	176	183	191	199	37%	4.6%
Total visitors (000s)[2]	55	60	63	65	68	71	74	77	40%	4.9%
Total days (000s)[2]	1,021	1,029	1,076	1,121	1,159	1,191	1,214	1,229	20%	2.7%
Spend per day ($)[3]	257	270	271	272	273	277	283	292	14%	1.8%
Ave length of stay (days)[2]	18	17	17	17	17	17	16	16	-11%	-1.7%

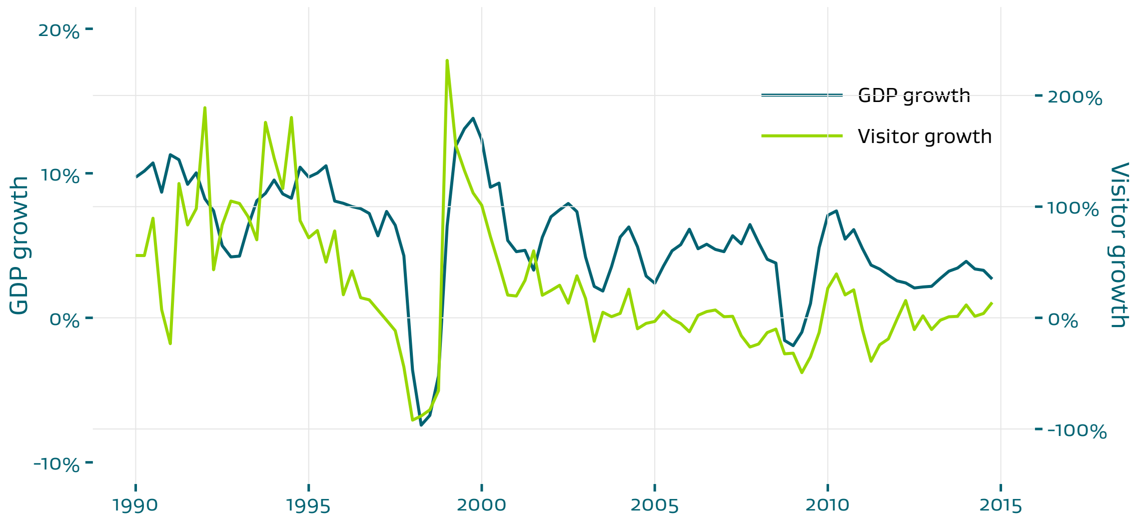
1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics NZ; 3. Derived from International Visitor Survey; 4. World Bank data (http://data.worldbank.org/indicator); 5. Compound Average Growth Rate per year ('14-'21).

After falling in 2013, Korean visitor arrivals increased 8.8 per cent in 2014, to 55,000 visitors. Korean household consumption was much weaker in 2013 and early 2014 but is now improving in 2015. The Korean Won has also been stronger than many other currencies, boosting spend from this market. We expect moderate growth from the Korean market in the short to medium-term.

■ Forecasts and drivers

- The Korean economy was fairly weak in 2013 and early 2014, with reduced household consumption in the face of domestic uncertainty and earlier falls in house prices.
- Most analysts expect stronger economic growth of around 3-4 per cent for South Korea across 2015-16. Interest rates have been low, stimulating consumption and investment in the economy, which contributes to economic growth, helping support outbound tourism from South Korea.
- Unlike many other markets, the Won has been appreciating against the New Zealand dollar, lifting spending from this market.
- There are risks to the outlook that include a softening in China's economy and/or the global economy, but South Korea's fiscal position is stronger than before, which means policymakers have more headroom to respond to any deterioration in economic conditions.
- Historically, Korean visitors to New Zealand have been particularly sensitive to downturns in their own economic conditions. Visitor arrivals tend to drop rapidly as a consequence (see Figure 28).

Figure 28: Korean visitor growth is weak when the economy is weak

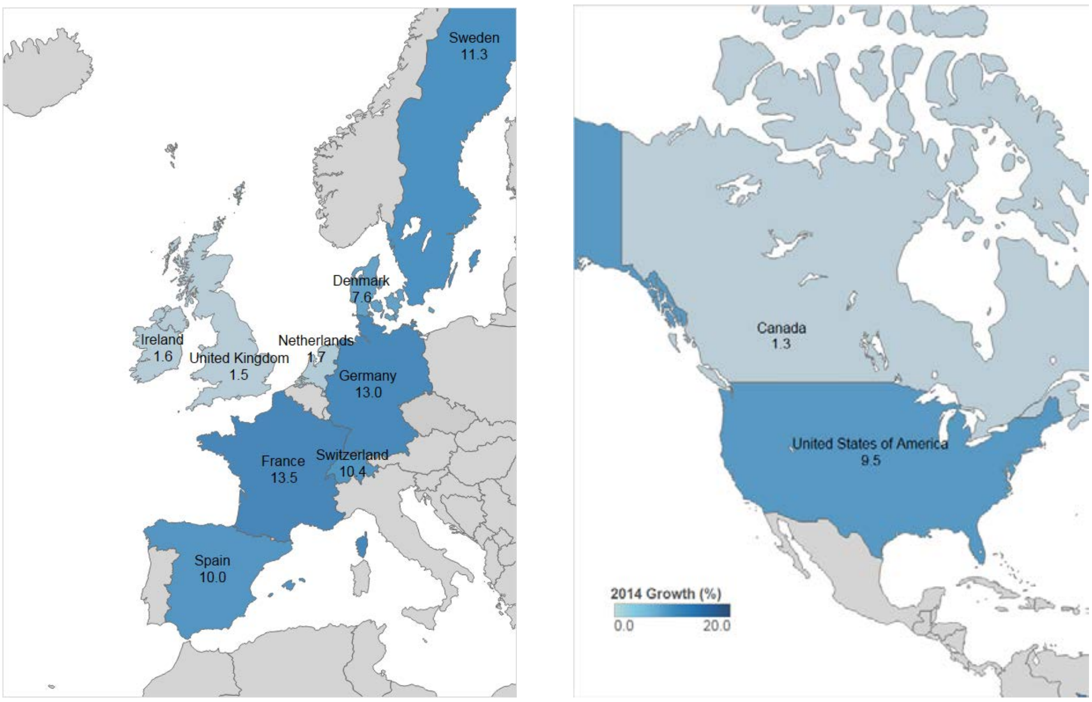


Source: Datastream

4.3 Europe and Americas

Visitor arrivals from advanced economies in Europe and North America continued to climb in 2014. Strong US visitor growth led the way, outperforming other countries. Different economic outlooks, with interest rate hikes more likely in the US than elsewhere, drive currency differentials that will impact on bottom-line spend on a market-by-market basis. As a destination, New Zealand is in competition for European demand with emerging markets such as Eastern Europe and South America.

Figure 29: Growth in visitor arrivals from Europe and the Americas has picked up in 2014



(a) Europe (b) North America

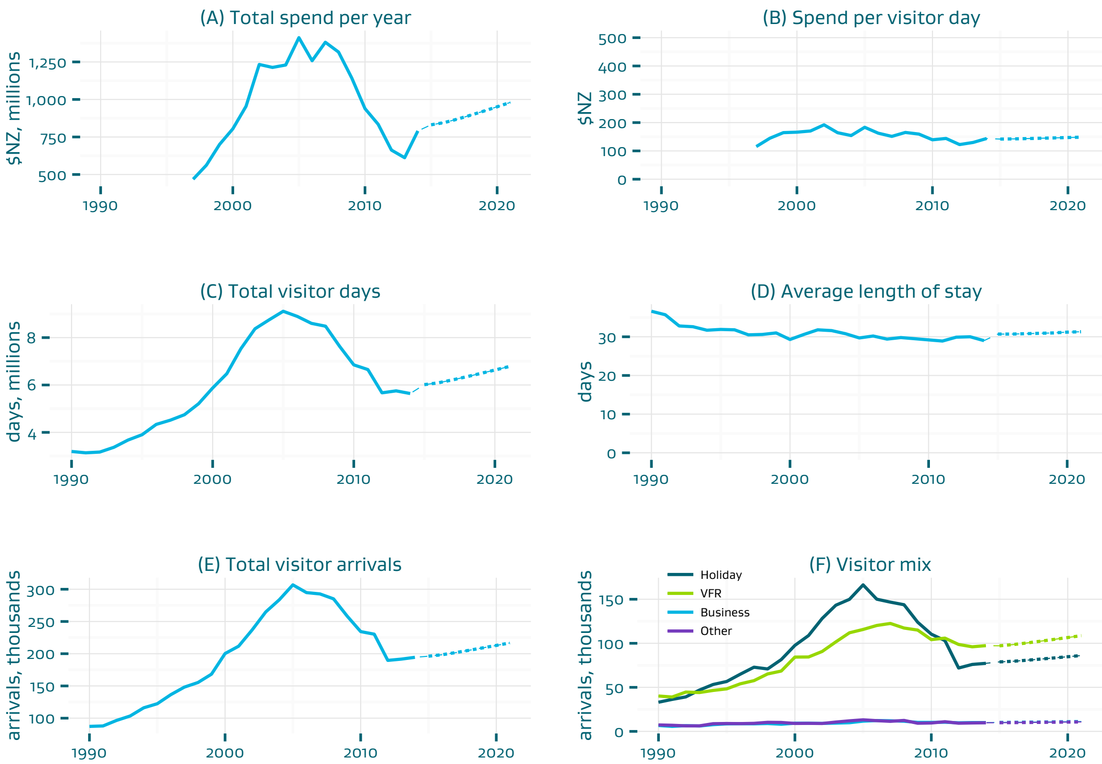
Source: Growth in visitor arrivals, year ending December 2014, Statistics New Zealand

United Kingdom

Summary	2014	2021
Total spend ($m)[1]	790	981
Total visitors (000s)[2]	194	217
Total days (000s)[2]	5,640	6,777
Spend per day ($)[3]	144	148
Ave length of stay (days)[2]	29	31

Visitor market characteristics[4]	
GDP per capita (PPP)	38,259
Population (millions)	64.1
Outbound departures (millions)	58.5
Outbound spend (USD mn)	52,490

Figure 30: Summary of forecasts: UK



									GROWTH	
Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**	**Annual[5]**
Total spend ($m)[1]	790	831	846	869	895	923	951	981	24%	3.1%
Total visitors (000s)[2]	194	196	198	202	205	209	213	217	12%	1.6%
Total days (000s)[2]	5,640	6,015	6,093	6,215	6,349	6,489	6,631	6,777	20%	2.7%
Spend per day ($)[3]	144	142	142	143	145	146	147	148	3%	0.4%
Ave length of stay (days)[2]	29	31	31	31	31	31	31	31	7%	1.0%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics NZ; 3. Derived from International Visitor Survey; 4. World Bank data (http://data.worldbank.org/indicator); 5. Compound Average Growth Rate per year ('14-'21).

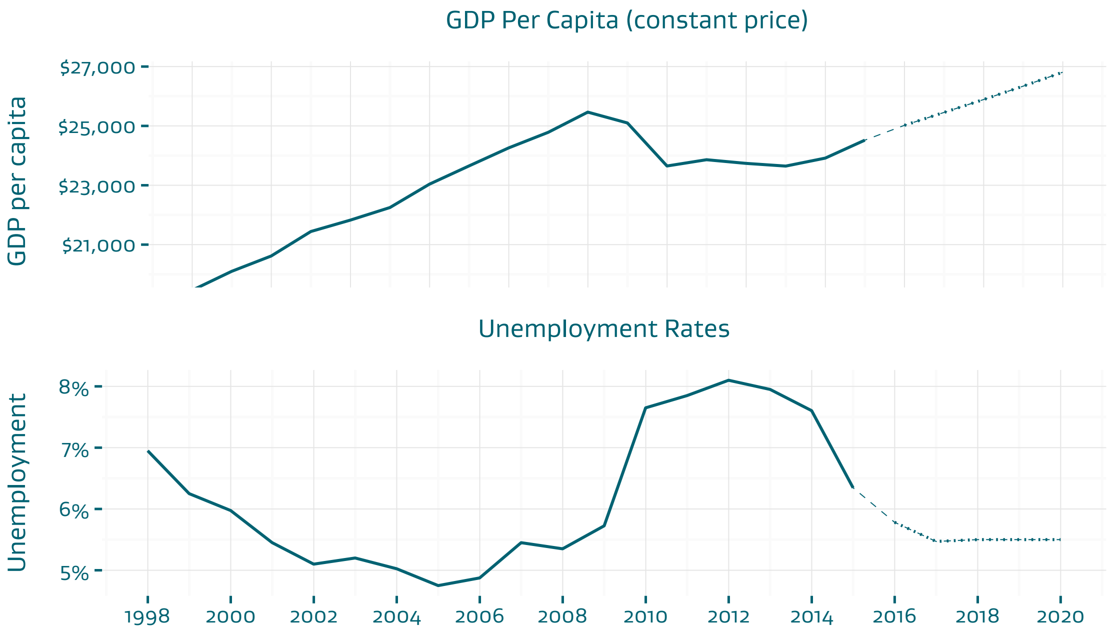
Economic growth in the UK has been modest. Inflation has been close to zero allowing the Bank of England to maintain extremely low levels of interest rates. Whilst this has helped consumers reduce debt after a prolonged recession it has also kept the British pound low against the soaring New Zealand dollar. Visitor growth was modest in 2014, up 1.5 per cent, backing up the positive visitor growth in 2013 after several stagnant years. The UK economy is picking up and household consumption will grow.

We expect moderate growth from this market, and competition from cheaper European destinations to limit a strong upturn in UK visitor arrivals.

■ Forecasts and drivers

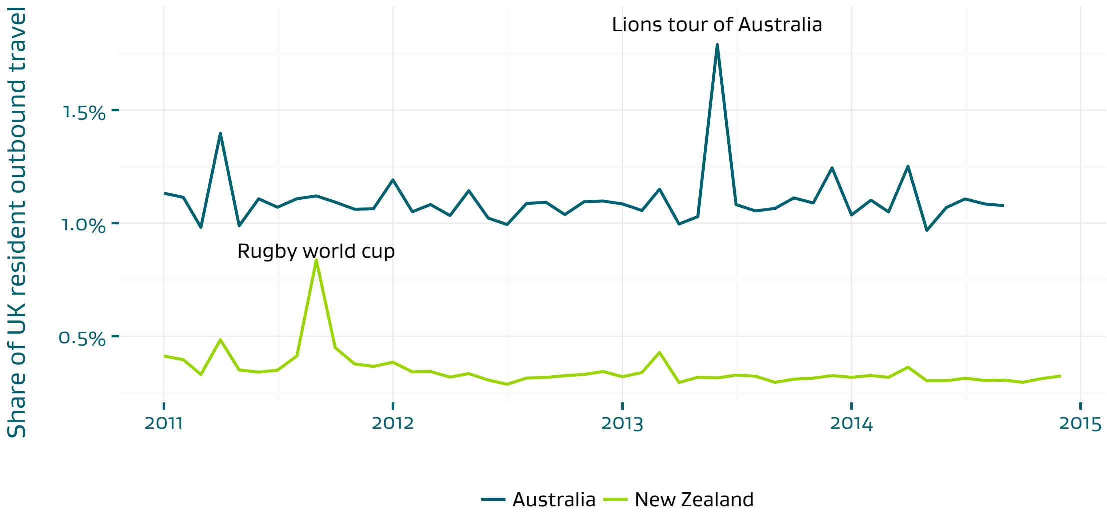
- The UK economy is improving, with extended periods of low interest rates helping households reduce debt and boost the local economy. A weak fiscal position and modest growth in key trading partners puts a cap on a strong upturn to the growth outlook.
- Households have benefited from cheaper energy prices - both oil and domestic - resulting in higher disposable incomes.
- Both GDP per capita and labour markets are improving, although long-term unemployment continues to weigh on the UK economy (see Figure 31).
- UK spend per day in New Zealand rebounded strongly in 2014, perhaps driven by the modest lift in the UK economy. Since UK visitors tend to stay for longer periods - the average length of stay sits around 30 days - a persistent lift in spend per day has the potential to significantly boost the overall value of the UK market.
- Longer term, the development of cheaper, predominantly European markets is likely to constrain the growth potential of the UK visitor market, but one-off events, like the 2017 Lions Tour, will boost visitor arrivals based on evidence from previous events (see figure 32).

Figure 31: GDP per capita and unemployment in the UK are improving



Source:IMF

Figure 32: One-off past events have boosted UK visitor arrivals to both Australia and New Zealand, showing future promise for events such as the 2017 Lions Tour



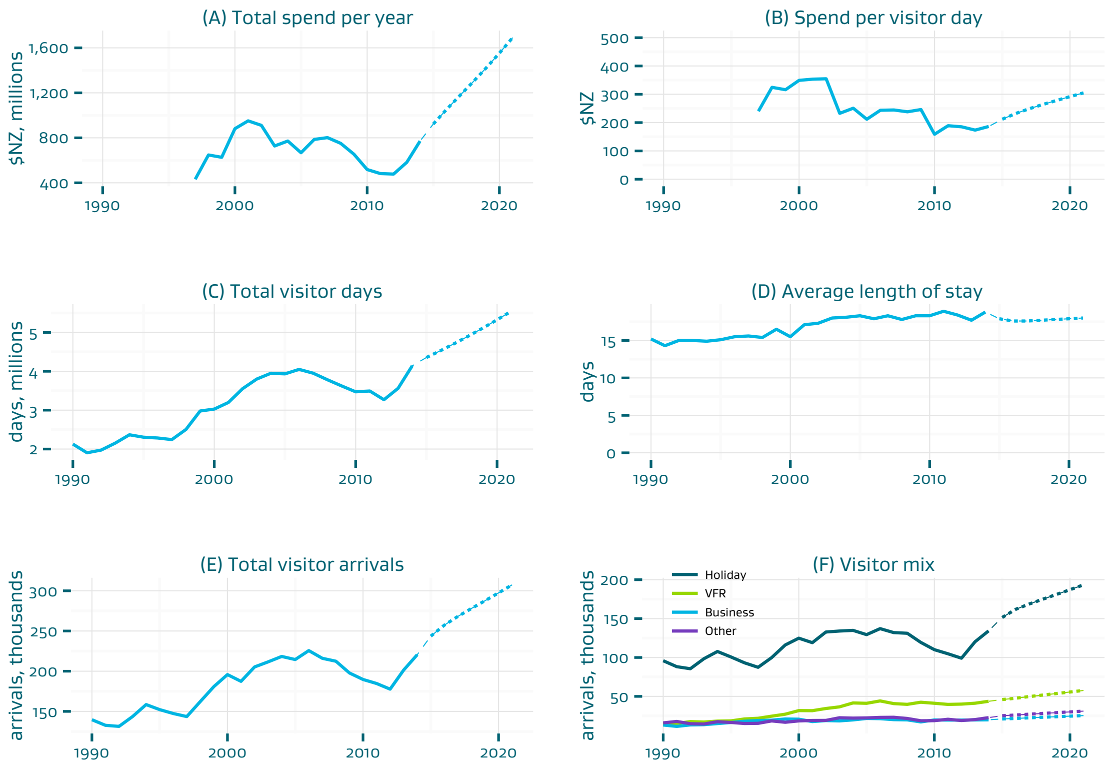
Source: Tourism Research Australia, Statistics New Zealand

United States of America

Summary	2014	2021	
Total spend ($m)[1]	771	1,690	↑
Total visitors (000s)[2]	221	307	↑
Total days (000s)[2]	4,140	5,544	↑
Spend per day ($)[3]	186	305	↑
Ave length of stay (days)[2]	19	18	↓

Visitor market characteristics[4]	
GDP per capita (PPP)	53,042
Population (millions)	316.1
Outbound departures (millions)	61.6
Outbound spend (USD mn)	104,678

Figure 33: Summary of forecasts: US



									GROWTH	
Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**	**Annual[5]**
Total spend ($m)[1]	771	923	1,052	1,175	1,296	1,422	1,553	1,690	119%	11.9%
Total visitors (000s)[2]	221	244	257	268	278	288	297	307	39%	4.8%
Total days (000s)[2]	4,140	4,354	4,530	4,717	4,911	5,113	5,324	5,544	34%	4.3%
Spend per day ($)[3]	186	212	232	249	264	278	292	305	64%	7.3%
Ave length of stay (days)[2]	19	18	18	18	18	18	18	18	-5%	-0.8%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics NZ; 3. Derived from International Visitor Survey; 4. World Bank data (http://data.worldbank.org/indicator); 5. Compound Average Growth Rate per year ('14-'21).

Visitor growth from the US continues at pace with visitor arrivals increasing by 9.5 per cent in 2014, backing up a 13.4 per cent increase in 2013. US visitor arrivals have almost returned to their pre-GFC peak of 226,000 in 2006.

Combined with strong volume growth, total spend from the US market lifted by almost a third in 2014 and is up 61.5 per cent since 2012. This growth in spend is unprecedented since spending records began in 1997. Spending by US visitors continues to recover, with average spend per day up 7.4 per cent in 2014 to $186 dollars on average per day. This increase is driven by an increase in real disposable income for Americans.

Growth in visitor arrivals will be moderate over the forecast period and we can expect the improving US economy and stronger US dollar to boost spending of US visitors that come to New Zealand.

■ Forecasts and drivers

- The stronger economy in the US is lifting the global US outbound market, up 1.8 per cent in 2013 and 6.1 per cent in 2014. New Zealand continues to outperform many competitors such as Africa, Asia and South American destinations.
- The US economy continues to post solid growth although the latest indicators suggest growth is a little weaker at the start of 2015 than in 2014.
- Inflation is low due to the sharp fall in oil prices from the end of 2014. Firms are struggling to pass on price increases in a weaker inflationary environment.
- The US labour market shows significant improvement with unemployment at 5.5 per cent in February 2015.
- US households are in a much better position to spend than they were 18 months ago. Lower oil prices and a stronger US dollar make domestic and international travel cheaper. Most US equity markets have risen recently and home values have picked up too. Real disposable income increased sharply in January 2015 and is expected to lift consumption in 2015.

- Marketing, airline economics and the capacity on key routes will also help determine who and how many US visitors will come to New Zealand. Figure 34 shows that, in 2014, most US visitors to New Zealand came from California. Texas is the third largest state in terms of arrivals to New Zealand, and Air New Zealand's new route to Houston from December 2015 will open up a direct connection between New Zealand and America's south for the first time.

Figure 34: California was the US state that brought most visitors to New Zealand in 2014

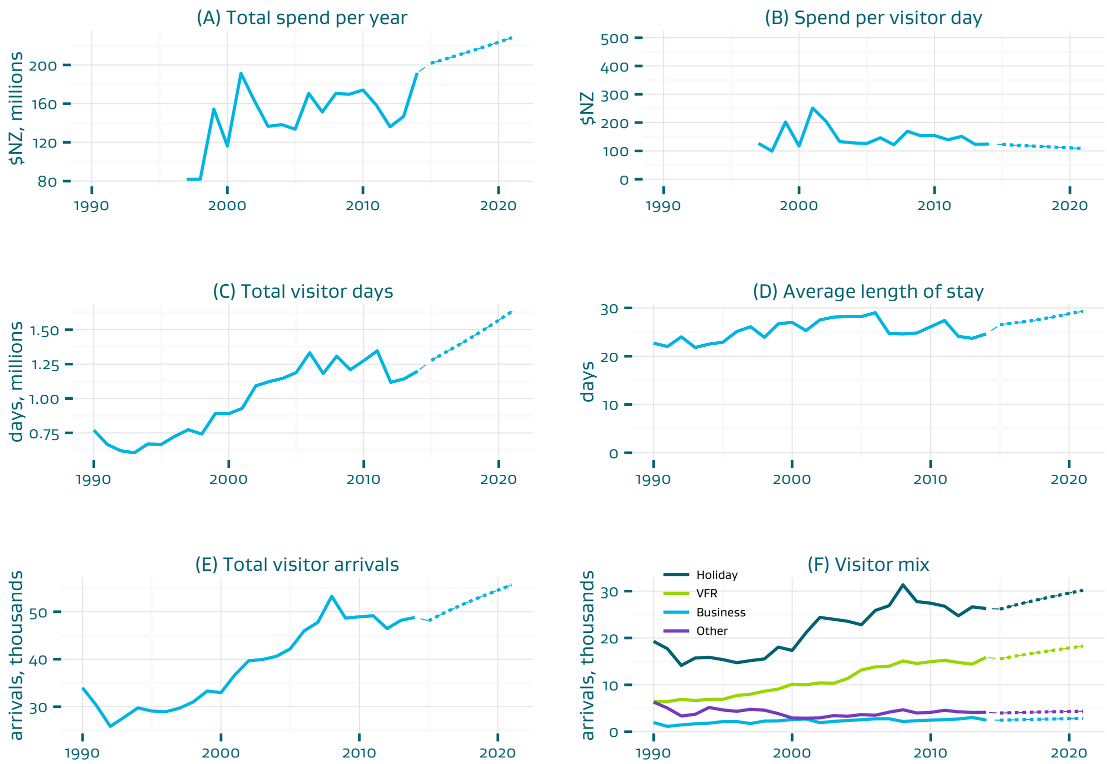
Source: Visitor arrivals to NZ by US state, year to December 2014, Statistics New Zealand

Canada

Summary	2014	2021	
Total spend ($m)[1]	192	228	↑
Total visitors (000s)[2]	49	56	↑
Total days (000s)[2]	1,199	1,634	↑
Spend per day ($)[3]	124	109	↓
Ave length of stay (days)[2]	25	29	↑

Visitor market characteristics[4]	
GDP per capita (PPP)	42,753
Population (millions)	35.2
Outbound departures (millions)	33.0
Outbound spend (USD mn)	35,170

Figure 35: Summary of forecasts: Canada



									GROWTH	
Year	2014	2015	2016	2017	2018	2019	2020	2021	Total	Annual[5]
Total spend ($m)[1]	192	202	206	210	214	219	224	228	19%	2.5%
Total visitors (000s)[2]	49	48	50	51	52	53	55	56	14%	1.9%
Total days (000s)[2]	1,199	1,277	1,332	1,387	1,445	1,506	1,569	1,634	36%	4.5%
Spend per day ($)[3]	124	123	120	118	115	113	111	109	-12%	-1.8%
Ave length of stay (days)[2]	25	26	27	27	28	28	29	29	16%	2.1%

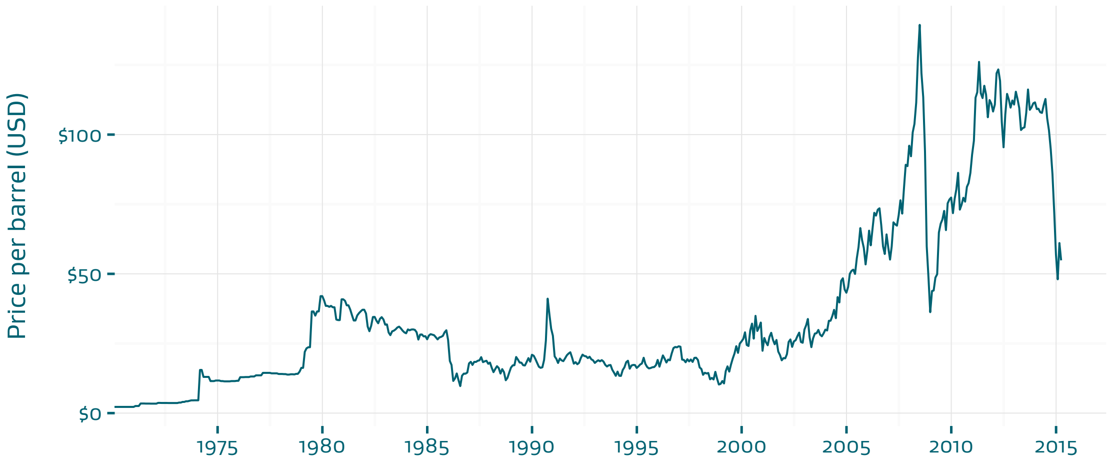
1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics NZ; 3. Derived from International Visitor Survey; 4. World Bank data (http://data.worldbank.org/indicator); 5. Compound Average Growth Rate per year ('14-'21).

Canada's economy is recovering but has been hit hard by plummeting oil prices that have reduced the value of many Canadian exports. However, the Canadian economy relies on US growth where lower oil prices have a much more positive impact on the economy. Visitor growth from Canada was modest in 2014, at 1.3 per cent. We expect limited but steady growth in visitor arrivals and spend from Canada over the forecast period.

■ Forecasts and drivers

- Canada's economy is recovering but has been hit hard by plummeting oil prices (see Figure 36) that reduce the value of many key Canadian exports.

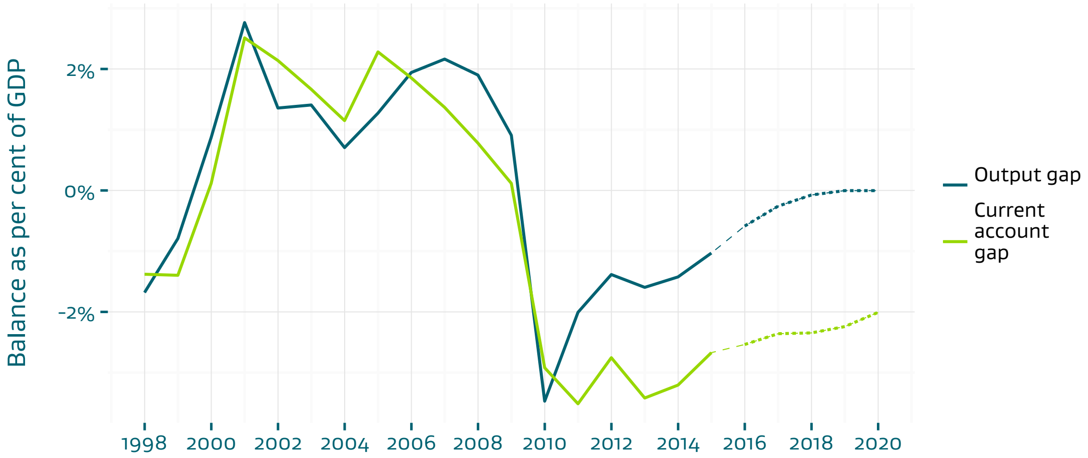
Figure 36: Oil prices plummeted recently



Source: Datastream

- Canada benefits from stronger and more sustainable growth from the US economy, but on balance, the sharp shock in oil price means the Canadian economy is weaker overall. Canadian economic growth is weaker, reducing any upward pressure on inflation (see Figure 37).
- In response, the Bank of Canada has cut interest rates, reducing the purchasing power of Canadian currency.
- While recent visitor arrival growth from Canada has been modest, other competitors are showing much higher rates of growth. Canadian visitors to Australia increased 9 per cent in the year to September 2014 so higher rates of growth to New Zealand are clearly possible, airline capacity permitting.

Figure 37: The Canadian economy is weaker overall, due to the drop in oil price reducing Canadian export prices



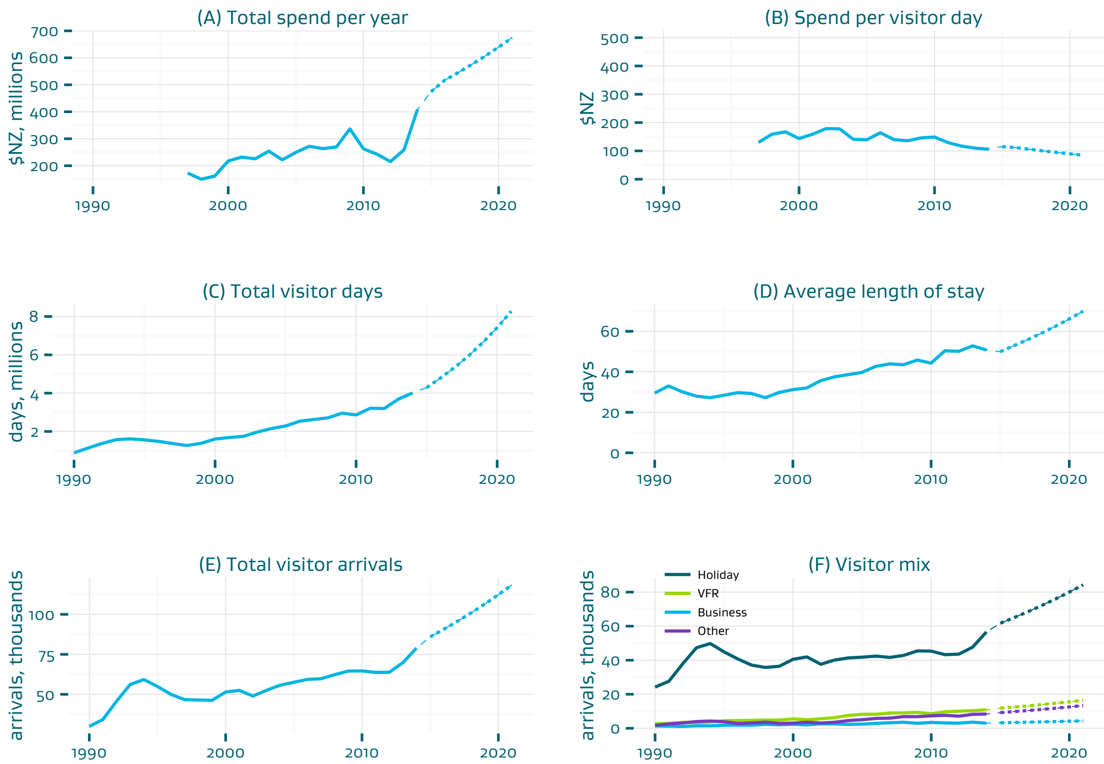
Source: IMF World Economic Outlook

Germany

Summary	2014	2021	
Total spend ($m)[1]	409	675	↑
Total visitors (000s)[2]	79	118	↑
Total days (000s)[2]	4,007	8,275	↑
Spend per day ($)[3]	106	85	↓
Ave length of stay (days)[2]	51	70	↑

Visitor market characteristics[4]	
GDP per capita (PPP)	43,884
Population (millions)	80.7
Outbound departures (millions)[6]	72.3
Outbound spend (USD mn)	91,320

Figure 38: Summary of forecasts: Germany



									GROWTH	
Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**	**Annual[5]**
Total spend ($m)[1]	409	474	516	545	575	606	640	675	65%	7.4%
Total visitors (000s)[2]	79	86	91	96	101	106	112	118	49%	5.9%
Total days (000s)[2]	4,007	4,287	4,798	5,352	5,968	6,655	7,421	8,275	107%	10.9%
Spend per day ($)[3]	106	115	112	106	100	95	90	85	-20%	-3.1%
Ave length of stay (days)[2]	51	50	53	56	59	62	66	70	37%	4.6%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics NZ; 3. Derived from International Visitor Survey; 4. World Bank data (http://data.worldbank.org/indicator); 5. Compound Average Growth Rate per year ('14-'21); 6. 2009 value.

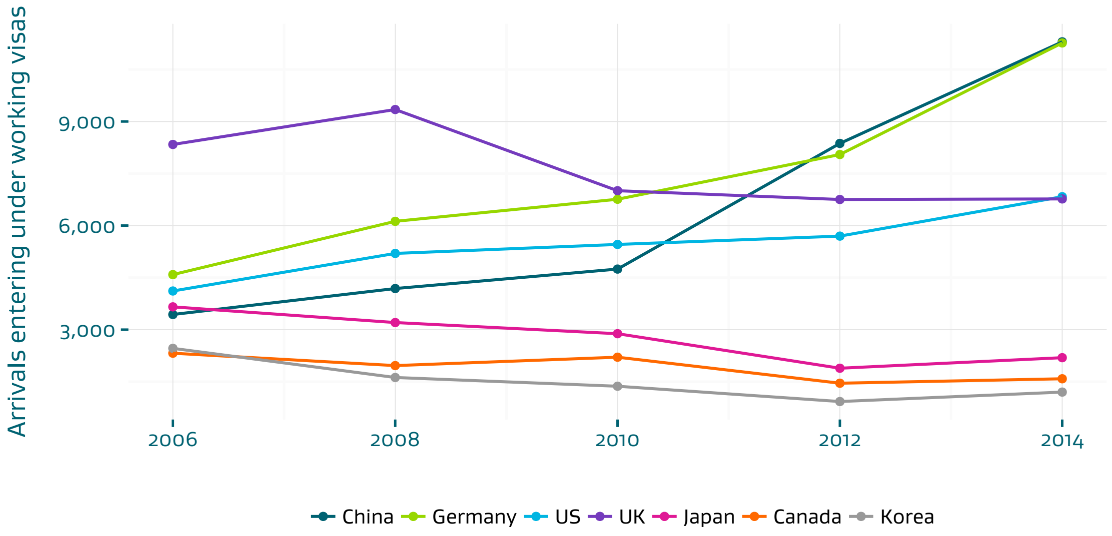
The profile of German visitors is materially different to most other visitors to New Zealand. Many Germans enter New Zealand on a working holiday visa, stay for longer and spend less per day than other international visitors.

Spending by German visitors increased 57.9 per cent in 2014, driven by strong visitor growth (up 13 per cent), and the extended length of stay for the German market. Spend per day for the German market has always been low, due to their extended length of stays (at 50.8 days on average in 2014). The economic outlook for the German market will largely be determined by what happens to spend per day and the already elevated length of stay, but we expect strong growth for the German market for both arrivals and spend.

■ Forecasts and drivers

- The outlook for German arrivals will largely be driven on expectations on whether the length of stay increases for many German visitors.
- Many Germans visit New Zealand on working holiday visas - more than many other countries (see Figure 39). This means that labour market conditions in Germany will impact on the number of German visitor arrivals in the medium-term.
- The German economy has recovered from the GFC although headline economic growth remains modest. Many key traditional euro area trading partners are in poor shape, limiting the upside to the German growth outlook.
- A weaker euro area has benefited Germany's strong and efficient manufacturing sector that has reaped the benefits of more competitive export prices.
- Household consumption and residential investment are relatively strong and expected to pick up across the rest of 2015 and into 2016. These factors are likely to keep the outlook for German visitor arrivals robust across the next 2-3 years.

Figure 39: Germans and Chinese visitor arrivals with working holiday visas are growing more than other countries



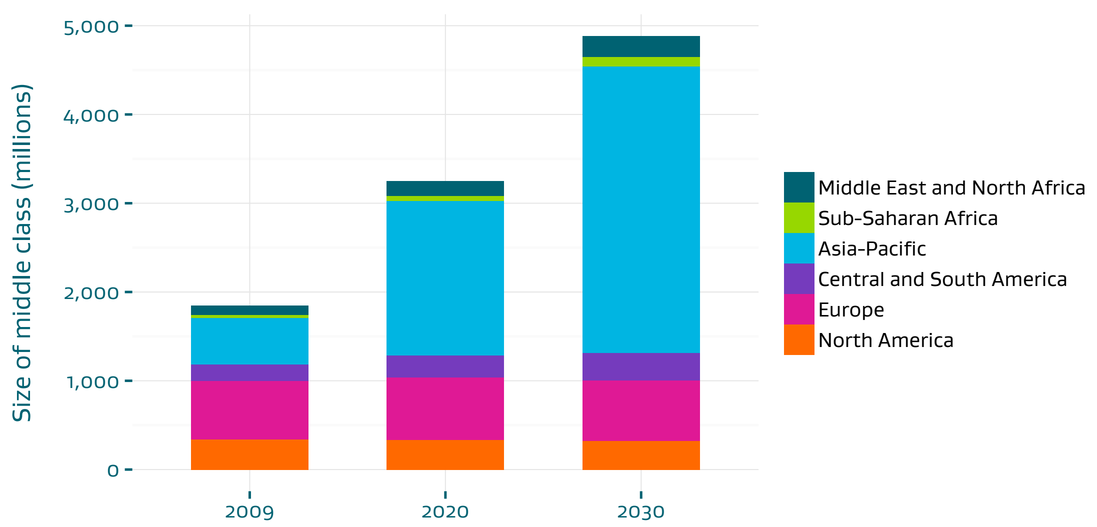
Source: Statistics New Zealand

5. Outlook for emerging markets

Demand from emerging markets is set to increase and grow more strongly than demand from advanced economies. Growth from the China market is changing New Zealand's tourism landscape so it makes sense to get prepared for the emerging markets that are following. A range of emerging economies present opportunities for New Zealand. India, Indonesia and South America look most promising. This year, we have introduced separate forecasts for India and Indonesia and discuss the South American market.

New Zealand is well positioned to leverage middle-class growth that is occurring much closer to home than ever before. Globalisation, industrialisation and urbanisation are driving growth in emerging markets predominantly in the Asia-Pacific region (see Figure 40 showing the expected growth in middle-class population, particularly in the Asia-Pacific region).

Figure 40: Emerging markets have a large growth of middle-class population



Source: Brookings Institute

Over the coming decades many more families in the Asia-Pacific region will look to explore domestic tourism opportunities and then set their horizons on international opportunities. Many of these travellers have a different profile to existing markets. For example, Indian visitors tend to want to come in the shoulder season, off-setting some of the seasonality profile in our international visitor markets. These factors generate a long-term opportunity for New Zealand's tourism industry.

In the short-term, the extent to which emerging market opportunities translate into demand on the ground will be driven by economic factors, but marketing, capacity and airline economics will play a greater role than for advanced economies.

Part of Tourism New Zealand's recent marketing focus has been on the emerging markets of

India, Indonesia and Latin America as these markets hold long-run opportunities for New Zealand. Tourism New Zealand has focused on accelerating quality visitor growth in the long-term for these markets. As well as offering significant opportunity for the tourism industry, investments in India, Indonesia and Latin America support the Government's wider priorities and upcoming events, such as the FIFA U20s World Cup.

Capacity and airline routes are also starting to make these markets feel closer to New Zealand than in past decades. A quick assessment of the opportunity for New Zealand can be made by assessing (i) the size of the market; (ii) the propensity to travel abroad; and (iii) the propensity to choose New Zealand over other destinations.

The following pages show arrivals forecasts for both the India and Indonesia markets, as well as context for the South American markets. We have not been able to produce spend forecasts for these markets as the sample sizes are not sufficiently large enough in the existing data. But we do know that these markets are full of potential for New Zealand.

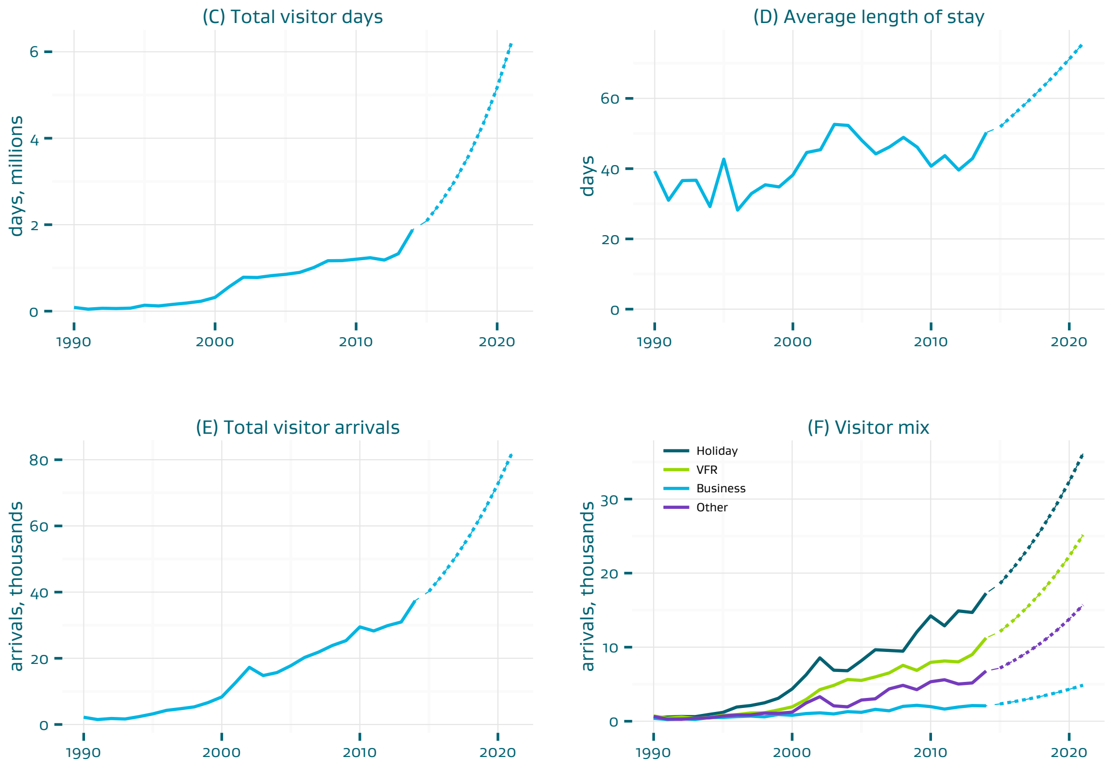
- The five-year average of total spend for Indian visitors to New Zealand between 2010-2014 was $89 million, and five-year average for spend per day of Indian visitors was $170 per day.
- The five-year average of total spend for Indonesian visitors to New Zealand between 2010-2014 was $37 million, and five-year average for spend per day of Indonesian visitors was $366 per day.

5.1 India

Summary	2014	2021	
Total visitors (000s)[2]	37	82	↑
Total days (000s)[2]	1,881	6,197	↑
Ave length of stay (days)[2]	50	76	↑

Visitor market characteristics[4]	
GDP per capita (PPP)	5,418
Population (millions)	1,252.1
Outbound departures (millions)	16.6
Outbound spend (USD mn)	11,571

Figure 41: Summary of forecasts: India



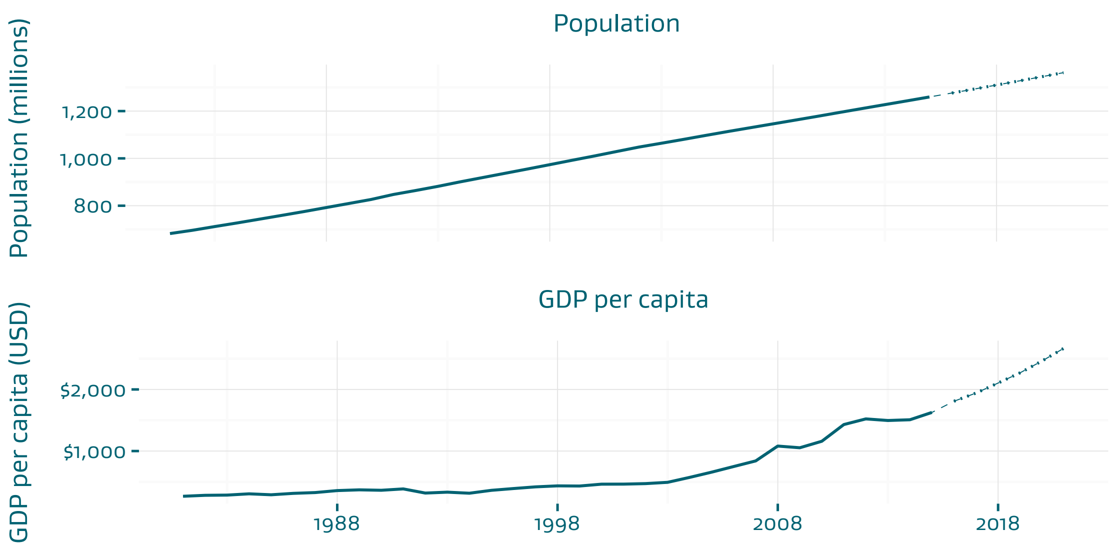
									GROWTH	
Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**	**Annual[5]**
Total visitors (000s)[2]	37	40	45	51	57	65	73	82	122%	12.0%
Total days (000s)[2]	1,881	2,086	2,512	3,010	3,606	4,319	5,174	6,197	229%	18.6%
Ave length of stay (days)[2]	50	52	56	59	63	67	71	76	52%	6.2%

2. International Travel & Migration data, Statistics NZ; 4. World Bank data (http://data.worldbank.org/indicator); 5. Compound Average Growth Rate per year ('14-'21).

India holds much promise as an emerging market for New Zealand in future decades. The size of the market is huge with India's current population sitting at 1.2 billion and is set to overtake China as the most populous country in 2028, and incomes are growing (see Figure 42). However, the average income or GDP per capita is much lower than other emerging countries, such as South America or China, reducing the ability of many people to travel abroad in the short-term. Whilst India has many people living in poverty, the cohort of middle class is growing, and these are the people most likely to travel.

New Zealand's traditional connections with India reduce many of the obstacles that stall development of tourism markets. We expect this market to have an increasing propensity to travel to New Zealand. Indian visitors stay a long time in New Zealand, on average for 50 days per trip in 2014. This is driven by a large number of education visitors, as is evident by the growing number of student visa applications that have been approved by New Zealand Immigration.

Figure 42: India's population is growing as well as its GDP per capita, driving more outbound travel from this market



Source: World Bank

■ India is undertaking a wide-ranging programme of economic reform

The pace of economic reform has picked up in recent years. These reforms include liberalisation of labour markets, opening up of the banking sector and ongoing efforts to make doing business in India easier. In the medium-term these market reform efforts will bring rewards by generating a productive environment that can unlock India's untapped pool of labour.

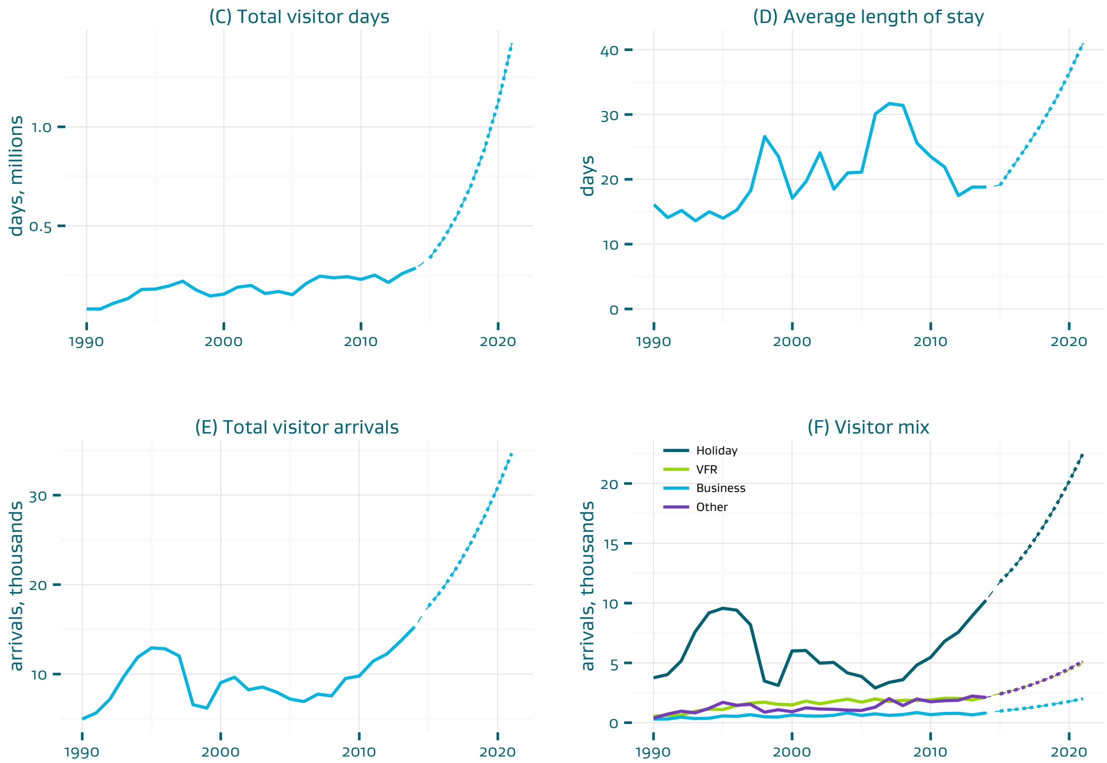
But there are many challenges. India's infrastructure is under pressure, electricity supply unreliable and there is a huge welfare gap between the richest and the poorest in society. At least for now, the outlook is positive. The International Monetary Fund (IMF) are picking the rate of economic growth in India to surpass that of China in coming years but expect it will be a long time before that translates into a boost of the same magnitude for New Zealand tourism.

5.2 Indonesia

Summary	2014	2021
Total visitors (000s)[2]	15	35
Total days (000s)[2]	287	1,422
Ave length of stay (days)[2]	19	41

Visitor market characteristics[4]	
GDP per capita (PPP)	9,561
Population (millions)	249.9
Outbound departures (millions)	8.0
Outbound spend (USD mn)	7,675

Figure 43: Summary of forecasts: Indonesia



Year	2014	2015	2016	2017	2018	2019	2020	2021	GROWTH Total	Annual[5]
Total visitors (000s)[2]	15	18	19	22	25	28	31	35	133%	12.9%
Total days (000s)[2]	287	336	433	552	701	887	1,123	1,422	395%	25.7%
Ave length of stay (days)[2]	19	19	22	25	29	32	36	41	116%	11.6%

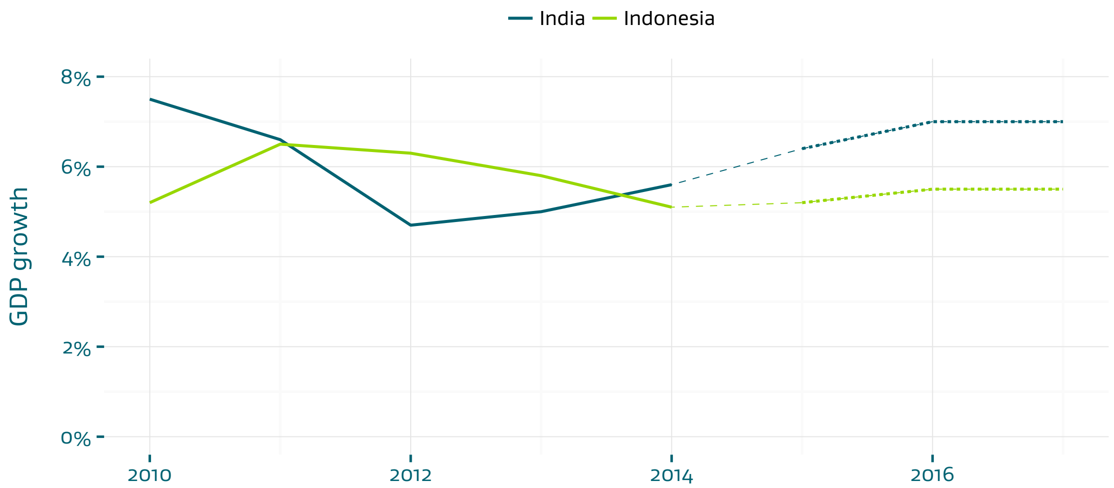
2. International Travel & Migration data, Statistics NZ; 4. World Bank data (http://data.worldbank.org/indicator); 5. Compound Average Growth Rate per year ('14-'21).

Like India, Indonesia has a sizeable and growing population. Over time, Indonesia's middle class will expand and like elsewhere look to take advantage of tourism opportunities.

Even without the advantage of direct flights linking Indonesia to New Zealand, visitor arrivals have surged in recent years passing the level seen in the mid-1990s before the Asian Financial Crisis and GFC when visitation plummeted. Although the aggregate arrivals are smaller than arrivals from other destinations, holidaymaker numbers have tripled in the last 7 years.

The outlook for continued expansion looks positive. Indonesians are starting to travel abroad, know Australia well and are increasingly choosing New Zealand as a destination. The country is young and, like India, is predicted to experience robust growth over the coming years (see Figure 44).

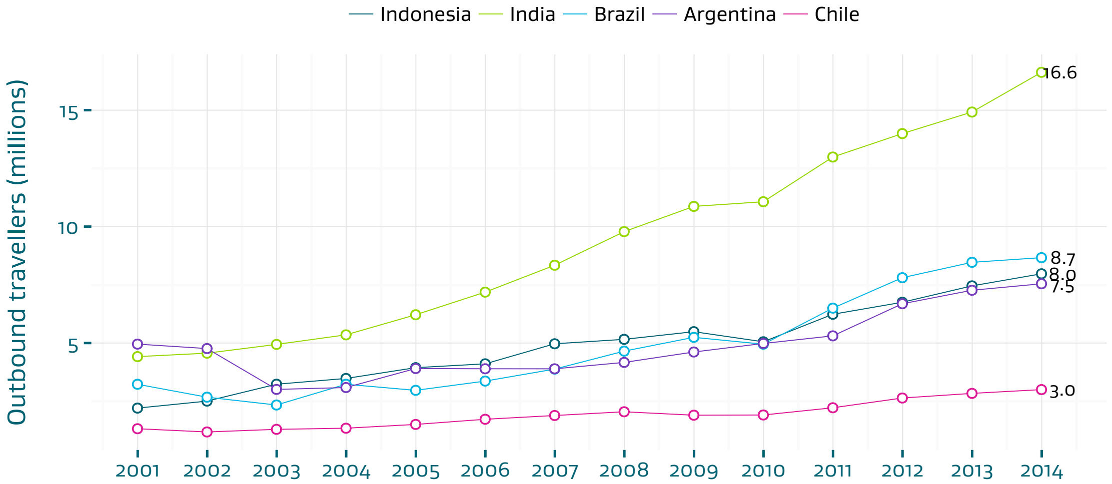
Figure 44: GDP is expected to grow for both India and Indonesia



Source: Expected and historical rates of GDP growth, World Bank

Like elsewhere, robust growth has boosted outbound tourism in Indonesia. Figure 45 shows that Indonesia's outbound market is substantial and sits comfortably beside other key emerging markets. In the short-term, Indonesian economic growth has slowed a little with investment weakening, at least partly due to the removal of subsidies on local use of diesel and other fuel. Indonesia's currency has also weakened and this will curb spending a little this year and into 2016. Most commentators then expect the Indonesian economy to pick up and grow more strongly in 2016 and 2017.

Figure 45: Indonesia's outbound numbers sit alongside other key emerging markets

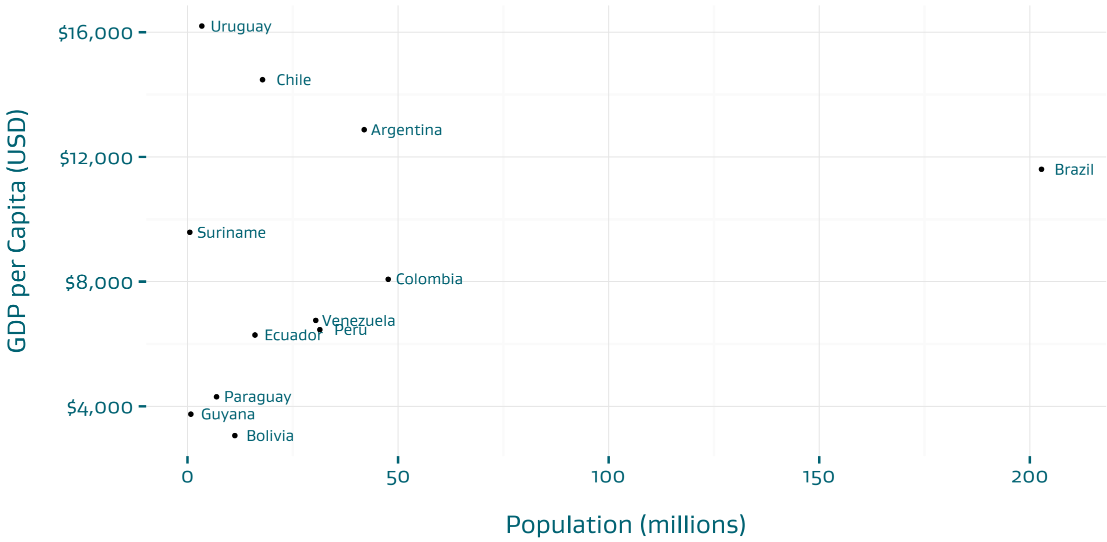


Source: World Bank

5.3 South America

Opening up of emerging markets within South America offers the opportunity to broaden New Zealand's range of tourism markets. LAN Airlines has been flying daily from Auckland to Santiago for a number of years. Air New Zealand's announcement of direct flights linking Buenos Aires to Auckland from December 2015 makes concrete the opportunity for the New Zealand market. While the Argentina-New Zealand link is critical, the route opens up South American countries to New Zealand, including Brazil's large population with relatively high incomes per capita. Figure 46 shows population against GDP per capita for a range of South American countries.

Figure 46: Brazil has a large population with relatively high incomes per capita



Source: Population and GDP per capita, World Bank

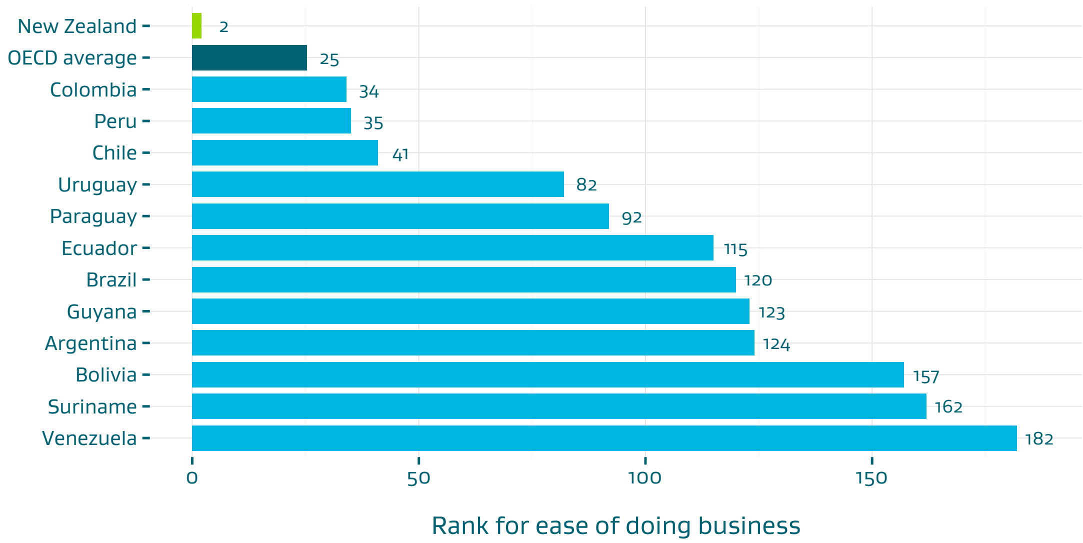
Much of South American demand for New Zealand is about favourable airline economics: opening up routes that allow better connections from South America to Asia via New Zealand. Alongside the right marketing, additional routes put in place the capacity to bring many more South American visitors to New Zealand over the medium-term.

■ Increasing flow from South America will not be straightforward

While new routes open new opportunities, new markets come with their own challenges. Doing business in South America is challenging, loaded with red tape and poor quality institutions that inhibit rather than create an economic environment for firms to thrive. In fact the World Bank ranks South American countries as some of the most difficult countries in the world to conduct business (see Figure 47).

Historically many South American markets have been a source of disappointment to US investors. Many markets are also surprisingly closed rather than export-orientated with Brazil's exports making up only 12.5 per cent of economic activity in 2014. We do not expect the same growth for South America as is evident in some Asian countries.

Figure 47: It is harder to do business in South America than elsewhere

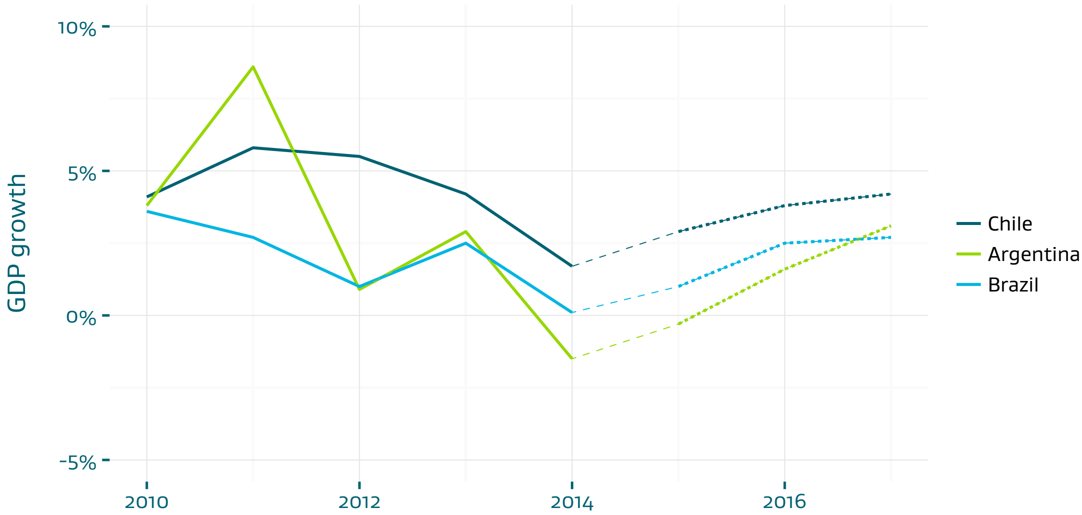


Source: 'Ease of Doing Business' rankings, South American countries, World Bank

■ Key South American economies have been weak, but expect improvement

2014 was a poor year for South American economies (see Figure 48). A weaker global economy has reduced the export prices for many key export commodities although an improved US economy and fall in the price of oil provides some relief for South American producers and exporters.

Figure 48: The economic outlook is for modest improvement



Source: Historical and expected rates of GDP growth, World Bank

6. Alternative Scenarios

6.1 China slowdown

China's growth is changing shape

Both the pace and composition of China's growth is changing shape. China is opening up, liberalising the capital account to allow funds to flow more freely into and out of their economy.

Such a change will tilt growth away from export-led growth and towards domestic consumption. So while China's headline economic growth is likely to slow from 8 per cent to below 7 per cent, that of itself is no reason to expect household spending and tourism expenditure to slow.

The shadow banking sector could trigger a sharp slowdown, which will be hard to fix

A sharp economic slowdown originating in a real estate sector that is over-extended could slow the outbound tourism market from China. During the GFC, local government in China provided loans and direct support to local businesses to help them continue to trade. But today local government balance sheets are in much worse shape. That could lead to a general evaporation of credit with private investment less willing to step into an uncertain environment.

The unofficial shadow banking sector - where borrowers access credit without the standard documentations required by the formal banking sector - is much larger today than at the time of the GFC. That reduces transparency around the scale of any risk to the Chinese economy and could make disentangling a web of loans particularly difficult.

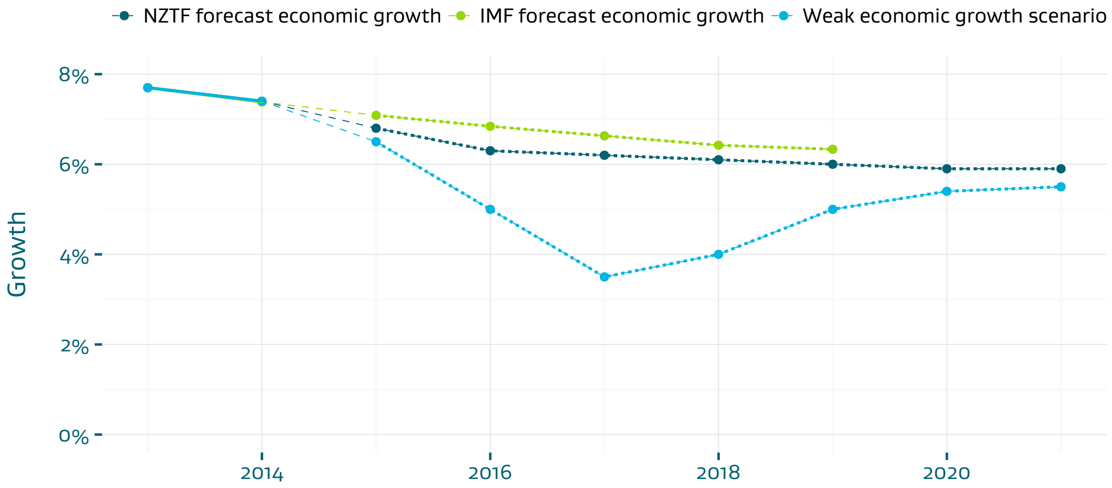
The interconnectedness of China's banking sector - let alone the global economy - makes it difficult to quantify just how hard a shock that originates in the shadow banking sector could impact on the Chinese economy.

Our scenario

To make things more concrete, we explore the impact of a marked slowdown in Chinese economic growth to 3.5 per cent in 2017. Figure 49 shows the weaker growth scenario alongside our committee-based forecast, which incidentally tracks relatively closely to the IMF's forecast for the Chinese economy from October 2014.

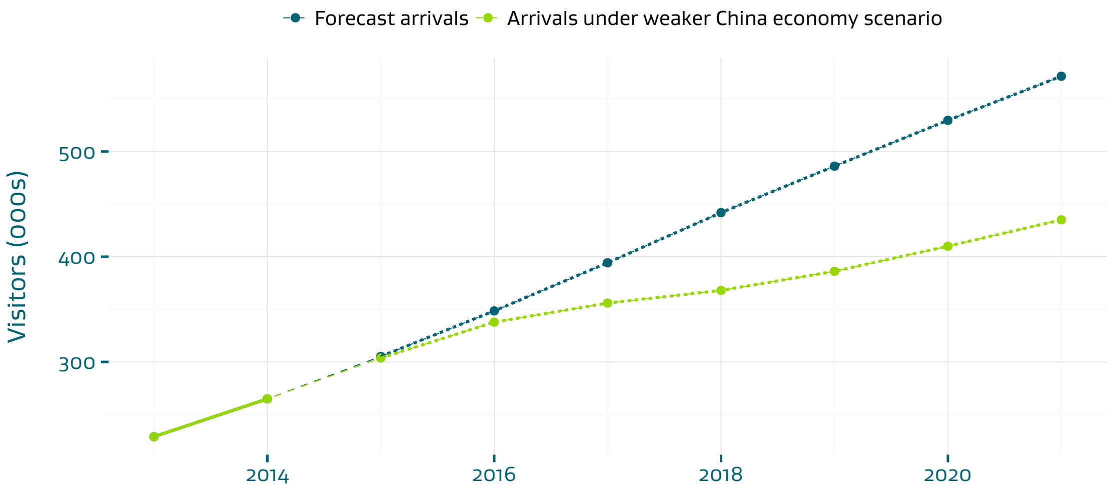
To test the impact of a slowdown in Chinese economic growth on visitor arrivals, we use the weaker growth scenario in our econometric model and make visitor arrivals conditional on this weaker economic growth profile (see Figure 50). At least for our scenario, the weaker growth makes for much less robust visitor arrivals, i.e. 435,000 fewer Chinese visitors in total right across the forecast horizon. However, this equates to an average annual growth rate that is still very strong, i.e. 7.3 per cent.

Figure 49: Scenario for slowing Chinese economy



Source: NZIER, IMF

Figure 50: Committee-adjusted forecast and scenario-based visitor arrivals for China



Chinese visitor arrivals (000s)									**GROWTH**	
Year	2014	2015	2016	2017	2018	2019	2020	2021	Total	Annual
Forecast	265	305	348	394	442	486	530	571	115%	11.6%
Weaker China economy scenario	265	304	338	356	368	386	410	435	64%	7.3%

Source: NZIER

6.2 Oil prices slump then recover

The price of oil has slumped

In the second half of 2014 the global price of oil was on a rapid downward slide - a path that continued into January and February of 2015. Now the price of Brent crude has fallen over 50 per cent - a dramatic decline that rivals the upwards shock to oil prices in the late 1970s and early 1980s. There will be winners (importers of oil) and losers (exporters of oil) from that shock, but cheaper oil makes it easier to power production and shift goods across the globe. If the fall in oil price persists, we can expect cheaper long haul travel.

Some predict the price of oil to slowly move higher

Many commentators - including the International Energy Agency (IEA) - expect the cheaper oil price to crimp investment in the energy sector since returns are likely to be much lower than expected over the medium-term. That decrease in investment will slowly return the price of oil towards the long-run marginal cost of supply - about $80 US dollars in real terms.

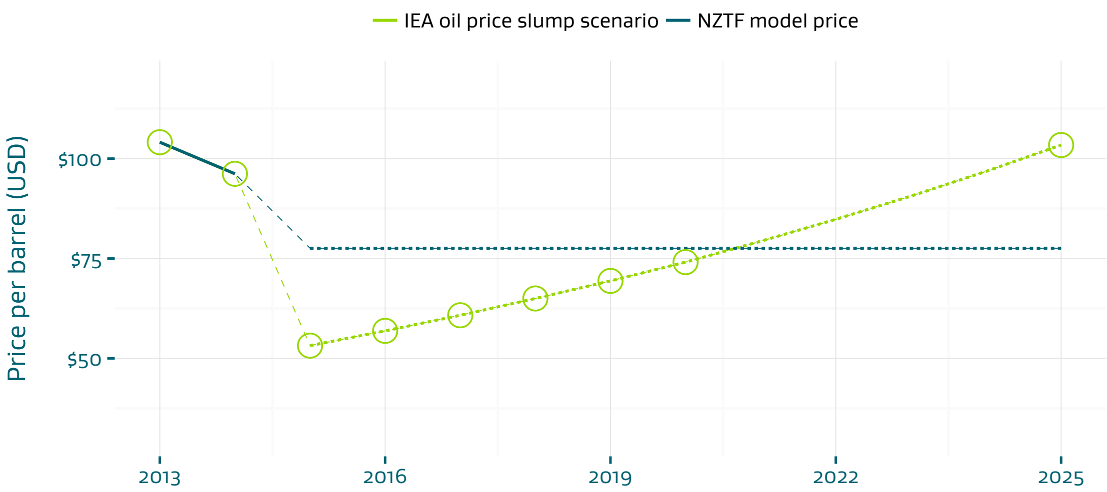
One difference relative to early price shock is Saudi Arabia's decision to commit to producing 30 million barrels of oil a day in spite of the over-supply in the market. This dynamic will keep prices lower, at least for a period of time until reduced production has an impact price.

Our scenario

Oil prices form a key variable in our econometric model and we can test what impact a reduction in oil prices could have. Figure 51 compares our model-based forecast (tracking at about $78 dollars a barrel) with the forecast from the IEA, which predicts oil prices will slowly return to the long-run marginal cost of production over a longer time period.

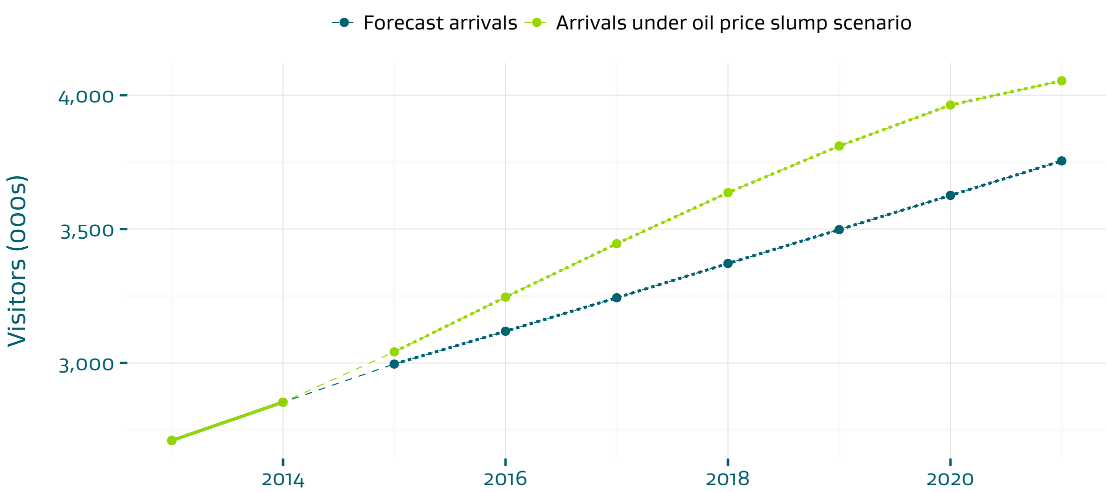
Figure 52 shows the impact of oil price changes on visitor arrivals, with stronger growth between 2016 and 2018 than in our central scenario. By the end of the forecast horizon, the lower track for oil prices could deliver almost 300,000 extra visitors).

Figure 51: Oil price scenarios: NZ Tourism Forecast prices used in model versus the IEA's oil price predictions



Source: NZIER, IMF

Figure 52: Committee-adjusted forecast and scenario-based visitor arrivals forecasts, worldwide



Total visitor arrivals (000s)									**GROWTH**	
Year	2014	2015	2016	2017	2018	2019	2020	2021	Total	Annual
Forecast	2,854	2,996	3,118	3,243	3,371	3,498	3,626	3,755	32%	4%
Oil price slump scenario	2,854	3,041	3,246	3,445	3,636	3,810	3,963	4,054	42%	5.1%

Source: NZIER

7. Technical Committee Adjustments

This year, as in previous years, as part of the forecast process a technical moderation committee met to discuss the forecasts and recommend changes to the forecasts where required. The technical committee contains representation from Air New Zealand, Auckland Airport, the Tourism Industry Association and Tourism New Zealand and is chaired by the Ministry of Business, Innovation and Employment.

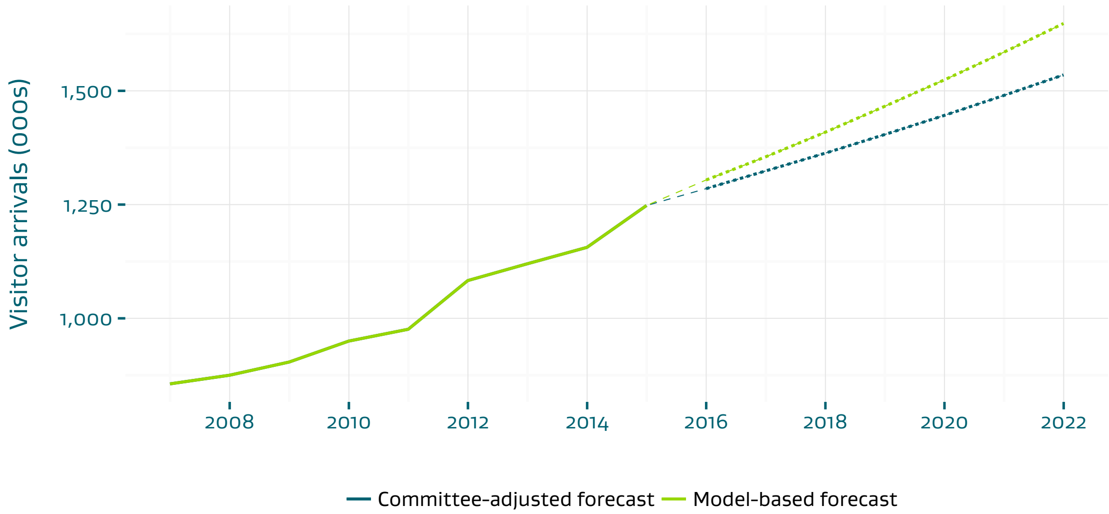
This year, the committee recommended three separate changes to the forecasts:

1. The rate of visitor growth for Australia is moderated down to a 3.0 per cent compounded annual growth rate (CAGR)
2. The moderate rates of growth for Japanese visitor arrivals persist rather than flatten towards the end of the forecast horizon
3. The strong rate of Chinese visitor arrival growth is moderated down towards the end of the forecast period.

7.1 Adjustment to Australia forecast

The committee opted to moderate down the model's forecasts for growth from a CAGR of 4.1 per cent to 2021 to growth of 3.0 per cent to 2021 (see Figure 53). This outlook is more consistent with existing trans-Tasman capacity, recent weakness in the Australian economy and a currency approaching parity against the NZD. The committee also moderated down the forecast for Australia in last year's forecasts and took comfort from the fact this judgment turned out to be correct. Actual visitor arrival growth was closer to the committee view than the model view in 2014.

Figure 53: Committee and model-based visitor arrival forecasts for Australia



Australian Visitor arrivals (000s)									**GROWTH**	
Forecasts	2014	2015	2016	2017	2018	2019	2020	2021	Total	Annual
Committee-adjusted	1,248	1,285	1,324	1,363	1,404	1,446	1,490	1,535	23.0%	3.0%
Model-based	1,248	1,304	1,355	1,409	1,466	1,524	1,585	1,648	32.1%	4.1%

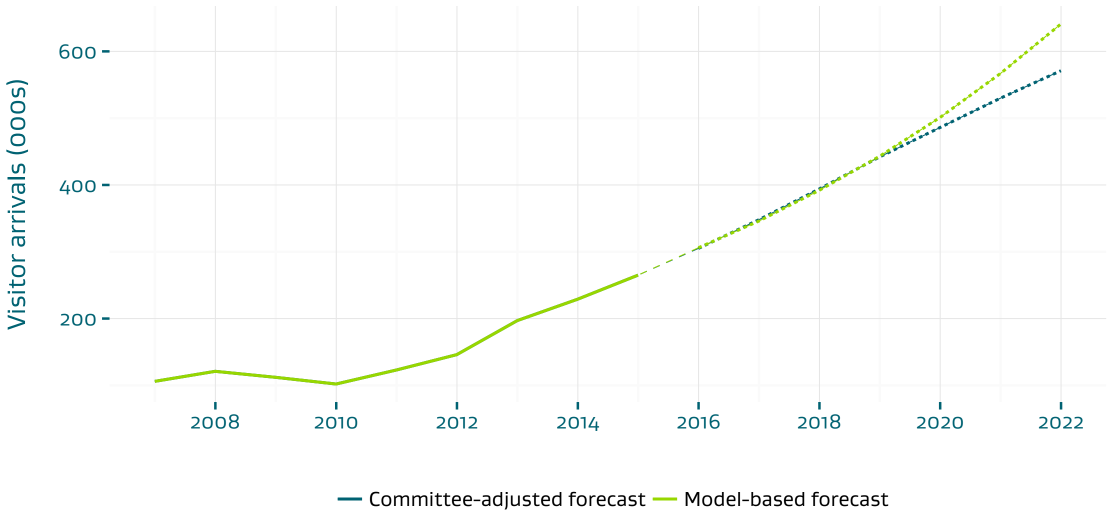
Source: NZIER

7.2 Adjustment to China forecast

The committee also adjusted the growth track for Chinese visitor arrivals. Some members of the committee expressed the view that the recent opening up of capacity is unlikely to persist for several years and raised questions about the future growth rate of the Chinese economy being as strong as it is now.

On balance, these factors led the committee to adopt a track for visitor arrival growth that retains recent strength in visitor arrivals growth, but which moderates to lower growth rates in years 2019-2021. This adjustment makes for 70,000 fewer visitors by 2021 (see Figure 54). The outlook for the China market is more uncertain than most other markets and we explore the impact of a downturn in the Chinese economy on visitor arrivals as a scenario in section 6.1.

Figure 54: Committee and model-based visitor arrival forecasts for China



China Visitor arrivals (000s)									**GROWTH**	
Forecasts	2014	2015	2016	2017	2018	2019	2020	2021	Total	Annual
Committee-adjusted	265	305	348	394	442	486	530	571	115.5%	11.6%
Model-based	265	306	346	392	443	501	567	641	141.9%	13.4%

Source: NZIER

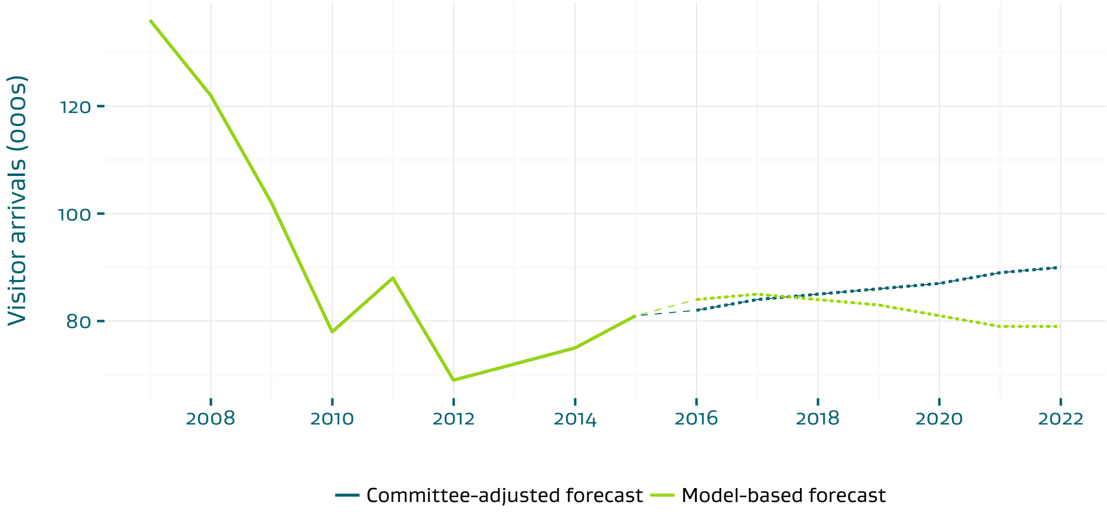
7.3 Adjustment to Japan forecast

The committee opted to adjust up the track for visitor arrival growth from Japan from flat visitor arrivals over the forecast period to a moderate rate of visitor arrival growth of 1.5 per cent, CAGR (see Figure 55).

Recent strength in visitor arrivals persists in both the model and committee views for Japanese visitor arrivals in the short-term. Over the medium-term, the economic model expects a return to declining visitor growth, a pattern that had persisted until recently from the peak in the market at 174,000 visitors in 2002.

The committee formed the view that the original forecasts predicted via the model for Japan were too pessimistic, given recent shifts in visitor mix from this market (to younger visitors), which are likely to boost visitor arrivals. The forecasts were moderated to increase in the medium- to long-term, lifting visitor arrivals by 11 per cent to 90,000 in 2021 (see Figure 55).

Figure 55: Committee and model-based visitor arrival forecasts for Japan



Japan Visitor arrivals (000s)									**GROWTH**	
Forecasts	2014	2015	2016	2017	2018	2019	2020	2021	Total	Annual
Committee-adjusted	81	82	84	85	86	87	89	90	11.1%	1.5%
Model-based	81	84	85	84	83	81	79	79	-2.5%	-0.4%

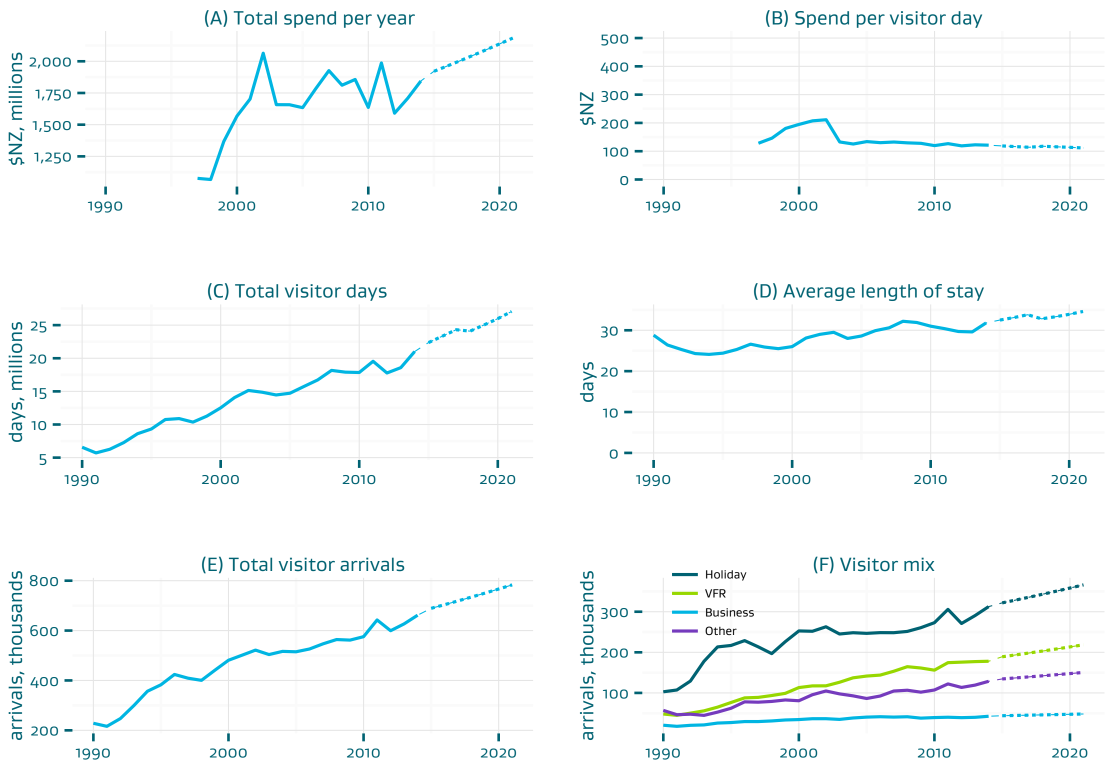
Source: NZIER

A. Appendix.Forecasts for Other markets

25%
Share of all spend in NZ

Summary	2014	2021
Total spend ($m)[1]	1,844	2,183
Total visitors (000s)[2]	662	783
Total days (000s)[2]	21,011	27,063
Spend per day ($)[3]	121	111
Ave length of stay (days)[2]	32	35

Figure 56: Summary of forecasts: Other



									GROWTH	
Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**	**Annual[5]**
Total spend ($m)[1]	1,844	1,921	1,962	2,005	2,048	2,092	2,137	2,183	18%	2.4%
Total visitors (000s)[2]	662	689	704	719	735	750	767	783	18%	2.4%
Total days (000s)[2]	21,011	22,367	23,333	24,307	24,094	25,019	25,979	27,063	29%	3.7%
Spend per day ($)[3]	121	119	116	114	117	116	114	111	-8%	-1.2%
Ave length of stay (days)[2]	32	32	33	34	33	33	34	35	9%	1.3%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics NZ; 3. Derived from International Visitor Survey; 5. Compound Average Growth Rate per year ('14-'21).