



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

**Evidence, Monitoring
& Governance**



New Zealand Tourism Forecasts 2016-2022

Report

May 2016





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

Ministry of Business, Innovation and Employment (MBIE)

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MBIE combines the former Ministries of Economic Development, Science + Innovation, and the Departments of Labour and Building and Housing.

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May 2016

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Foreword

It is my pleasure to release the Ministry of Business, Innovation and Employment's (MBIE's) tourism forecasts for the 2016-2022 period.

In the past year, the New Zealand tourism sector has experienced exceptional growth. Looking forward, the outlook is more positive than in previous years. Reflecting this, MBIE's tourism forecasts show international visitor expenditure increasing 65.5 per cent to \$16 billion by 2022.

This year, MBIE, for the first time, brings the forecast modelling in-house. This will allow faster delivery of forecasts to stakeholders, and build on in-house capability in order to better understand the drivers of tourism demand.

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, which is surrounded by uncertainty. We have modelled a range of possible outcomes, and present an average of these outcomes. The actual values in the future are likely to deviate from the modelled average. (see Appendix B for details).

We expect that China and Australia will remain key markets in the coming years, with arrivals from these two countries projected to make up 57 per cent of visitors by 2022. Total visitors are expected to grow strongly in the coming two years due to new routes, upgraded capacity, better connectivity and planned international events to be held in New Zealand. In the medium to long term, the visitor numbers are forecast to grow gradually to reach 4.5 million.

The Ministry uses a technical committee to moderate and improve the forecast results. The technical committee consists of members from the Ministry, Air New Zealand, Airways, Auckland International Airport, Tourism Industry Association, 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.

The interactive web tool for users to explore the forecast results for key markets is available on MBIE's website: <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/international-tourism-forecasts/interactive-web-tool>.



Michael Bird, General Manager
Evidence, Monitoring and Governance
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.

This year, MBIE, for the first time, brings the forecast modelling in-house. This will allow faster delivery of forecasts to stakeholders, and build on in-house capability in order to better understand the drivers of tourism demand.

The forecasts are developed using MBIE'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 microeconomic drivers such as airfare costs and airline capacity, as well as macroeconomic drivers such as exchange rates, oil prices, the global economy and the economies of our key visitor markets.

The forecasts are based on estimated future demand, and as such are not limited by any potential supply constraints, such as the capacity of accommodation, international flights and other factors. These factors could limit actual growth below our forecasts.

The forecasts are subject to the global economic situation, which is surrounded by uncertainty. We have modelled a range of possible outcomes, and present an average of these outcomes. The actual values are likely to deviate from the modelled average. (see Appendix B for details).

The industry-led and government supported Tourism 2025 framework provides a shared vision and common framework to grow the contribution of tourism 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 2016-2022 project New Zealand will exceed the international expenditure target, at 7.5 per cent growth per year to 2022.

Any forecasting process inevitably involves uncertainty. Appendix B shows prediction intervals for the forecasts for the Australian and Chinese markets, exemplifying our uncertainty about the future.

Interactive web tool and market summaries

Available on MBIE's website is an interactive web tool to explore forecast data by market, as well as downloadable one-page summaries for each market. These can be found here:

<http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/international-tourism-forecasts/interactive-web-tool>.

2. Executive summary

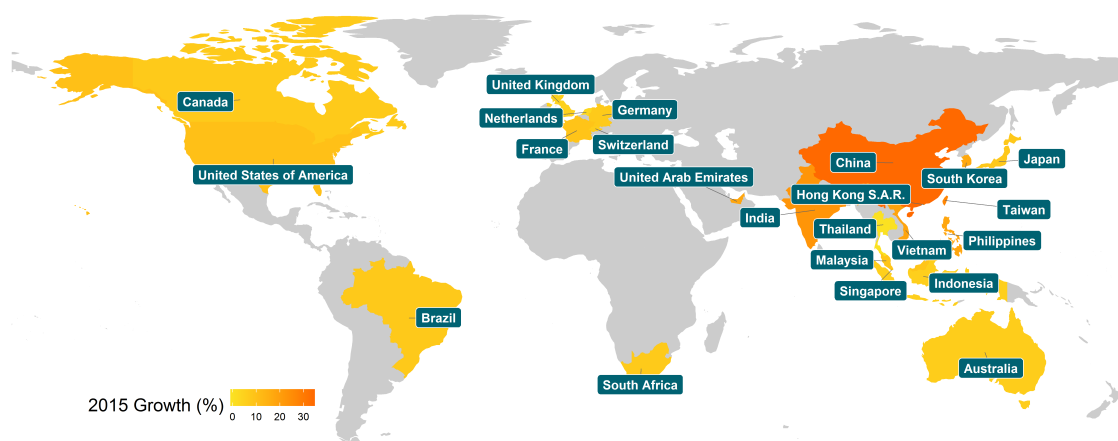
New Zealand's international tourism market experienced exceptional growth in the past year. In 2015, total spend across all markets was up 31.3 per cent, as measured by the International Visitor Survey (IVS). Both volume (visitor arrivals) and value (visitor spend) drivers contributed to overall growth in spending; that is, more people are coming and spending more each trip.

2.1 Recent performance

Visitor arrivals increased 9.6 per cent (or 275,000 extra visitors) in the year to December 2015, and spend grew by an estimated 31.3 per cent. Visitor volumes from the emerging markets and some advanced economies grew rapidly in the last year (see Figure 1). The number of Chinese visitors continued to grow very strongly.

Visitor spend has also lifted, with average spend per day up 19 per cent (to \$189) in 2015. All key markets showed increases in visitor spend with total spend up more than a third in 2015; Chinese visitor spend was up by 62.7 per cent in the last year.

Figure 1: Growth from New Zealand's top visitor markets has been positive over 2015



Source: Growth in visitor arrivals to New Zealand, year ending December 2015, Statistics New Zealand

2.2 Outlook to 2022

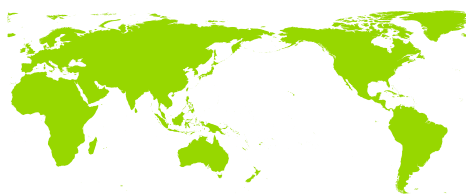
The tourism sector looks well-positioned to capture opportunities from several markets. The outlook to 2022 is very positive. Our forecast suggests China will be New Zealand's largest market in terms of spending within the next two years. Other key messages are as follows:

- Visitor arrivals to New Zealand are expected to grow 5.4 per cent a year, reaching 4.5 million visitors in 2022 from 3.1 million in 2015. The number of international visitors is

expected to grow strongly in the next couple of years due to the opening of new airline routes, the increase in airline capacity, and international events planned in New Zealand. It is expected to grow more gradually over the rest of the forecast period.

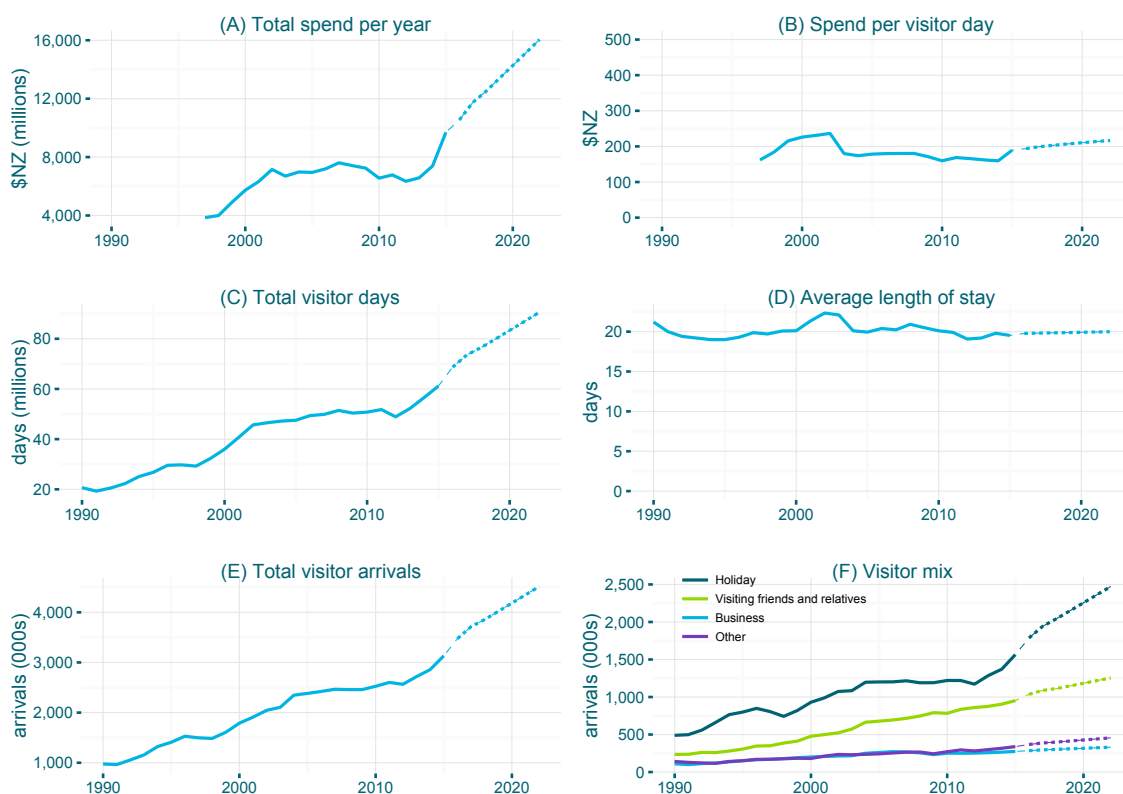
- Total international spend is expected to reach \$16 billion in 2022, up 65.5 per cent from 2015. This measure refers to spend by travellers aged 15 and over, excluding international airfares, and individuals whose purpose of visit to New Zealand was to attend a recognised educational institute, and are foreign-fee paying students. Visitor numbers are playing a role, but increasingly spend per trip (or visitor) is contributing to the bottom line. Trends are showing visitors are staying longer and spending more per day, lifting spend per trip overall.
- Australia is New Zealand's largest visitor market, providing over 1.3 million visitors in 2015. We expect this market to remain healthy, with projected growth of 3.2 per cent a year to 2022.
- China is expected to become New Zealand's largest tourism market by spend in the next two years, and to surpass \$5 billion by 2022. Visitor numbers are expected to reach nearly one million by the end of the forecast period.
- The forecasts provide a baseline for what will happen 'if things keep going this way'. 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.
- The forecasts estimate unconstrained future demand, and are not limited by supply constraints, which could limit actual growth below what is forecast.
- The forecasts presented are averages of a range of modelled outcomes. The actual values in the future are likely to deviate from the averages. (see Appendix B for details).

2.3 Outlook for all markets



Summary	2015	2022	
Total spend (\$m) ¹	9,698	16,048	↑
Total visitors (000s) ²	3,132	4,515	↑
Total days (000s) ²	61,144	90,257	↑
Spend per day (\$)³	189	217	↑
Avg length of stay (days) ²	20	20	→

Figure 2: Summary of forecasts: All

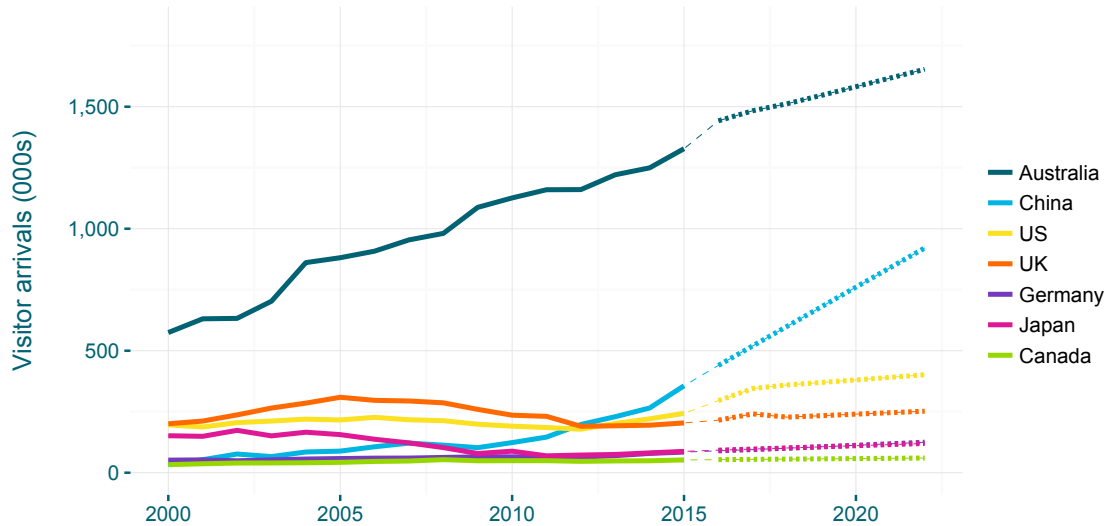


Year	GROWTH									
	2015	2016	2017	2018	2019	2020	2021	2022	Total	Annual ⁵
Total spend (\$m) ¹	9,698	10,539	11,734	12,507	13,395	14,273	15,162	16,048	65%	7.5%
Total visitors (000s) ²	3,132	3,475	3,713	3,856	4,019	4,183	4,349	4,515	44%	5.4%
Total days (000s) ²	61,144	68,694	73,587	76,525	79,867	83,346	86,764	90,257	48%	5.7%
Spend per day (\$)³	189	194	199	203	207	210	214	217	14%	1.9%
Avg length of stay (days) ²	20	20	20	20	20	20	20	20	2%	0.3%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics New Zealand; 3. Derived from International Visitor Survey; 5. Compound annual growth rate(2015-2022).

New Zealand's biggest markets by visitor arrivals

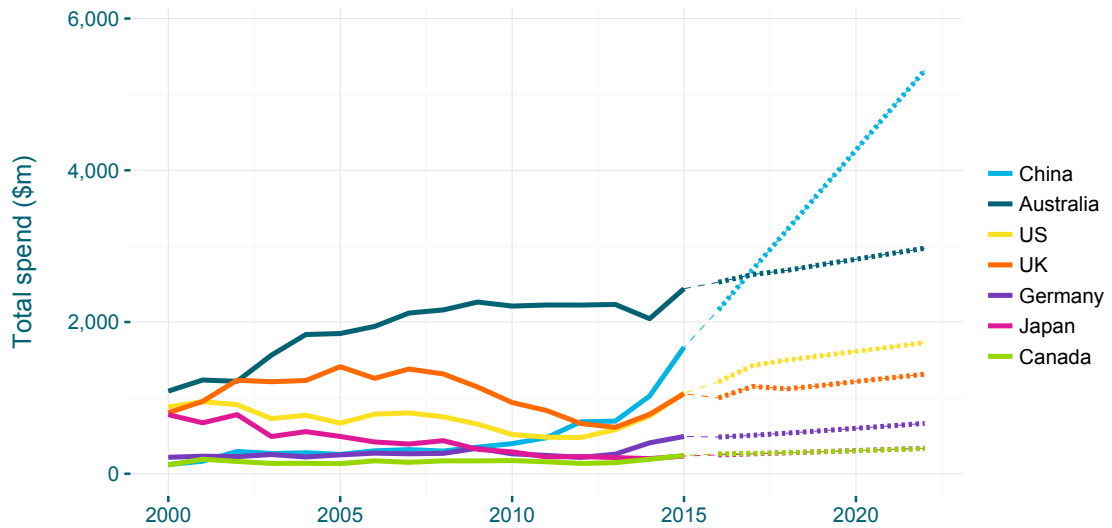
Figure 3: In terms of volume, Australia is projected to continue being New Zealand's largest market



Source: Statistics New Zealand, MBIE

New Zealand's biggest markets by spend

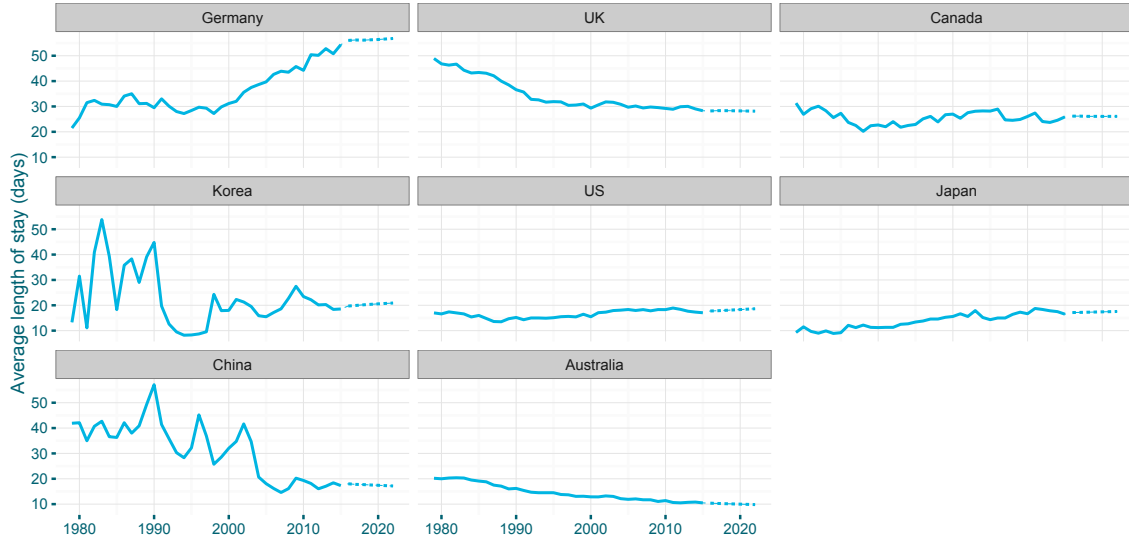
Figure 4: Australians contribute the most to total spend now, but China is likely to overtake by 2017



Source: MBIE

Average length of stay — comparison across markets

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



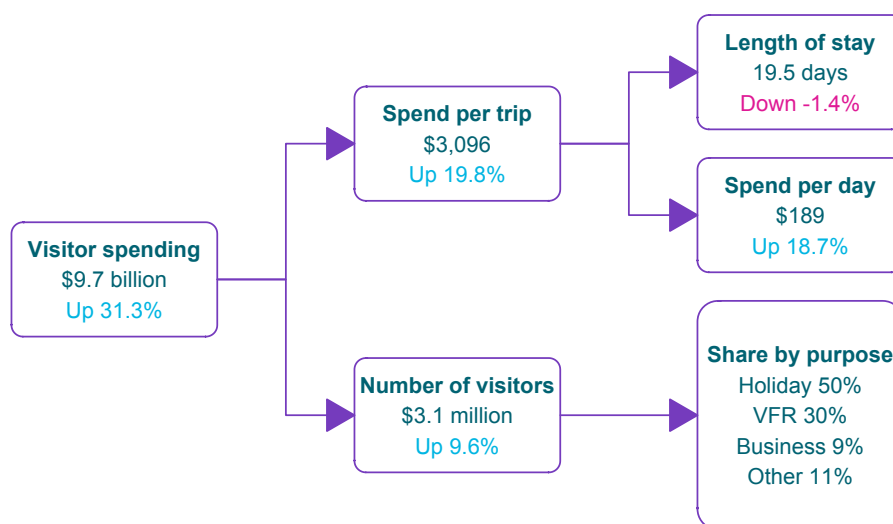
Source: Statistics New Zealand, MBIE

3. Fundamental drivers

3.1 Recent drivers

Both volume (arrivals) and value (spend per trip) 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: Volume and value both grew strongly in 2015, lifting total spend

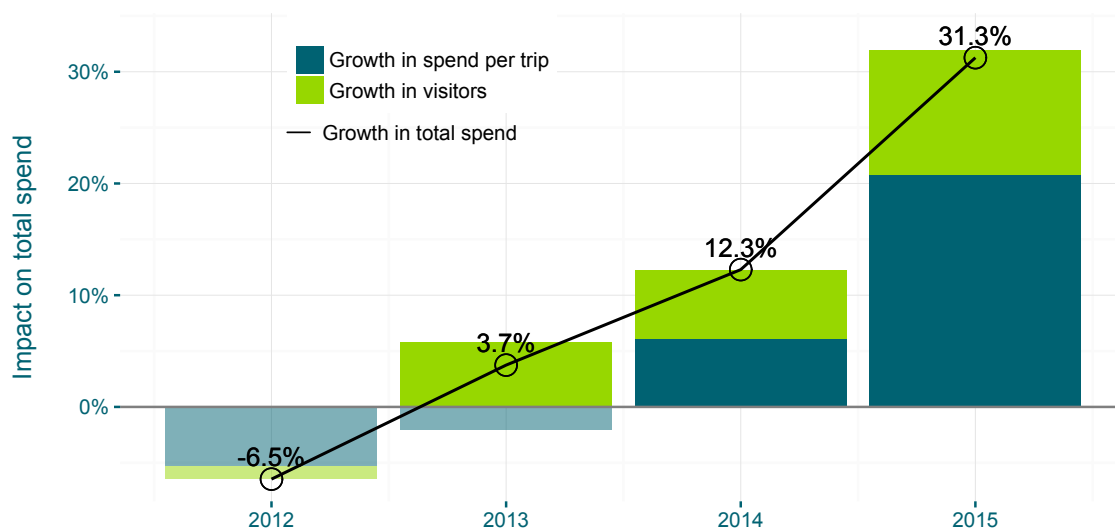


Source: Statistics New Zealand, MBIE

Note: VFR stands for visiting friends and relatives

Figure 6 shows the percentage year-on-year growth for both spend per trip and visitor arrivals. While visitor numbers grew by 9.6 per cent in 2015, total spend was up proportionately more, by 31.3 per cent in the same period. Total spend reached \$9.7 billion by the end of 2015, about 30 per cent higher than its pre-global financial crisis (GFC) peak of \$7.6 billion in 2007.

Figure 7: Both volume and value drove year-on-year growth in total spend in 2015



Source: International Visitor Survey, MBIE

Many factors came together to increase spend in 2015. Figure 7 illustrates the influence of both volume and value drivers in total spend growth over the last four years:

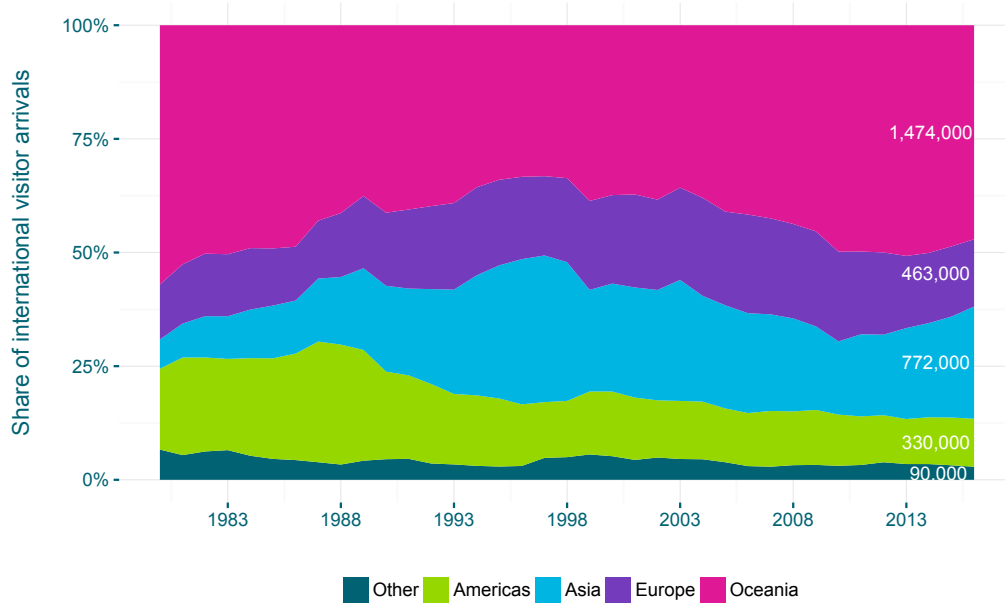
- After the GFC, in 2012, the drop in total spend of 6.5 per cent was mostly influenced by visitors spending less per trip.
- In the following year, visitor numbers bounced back, and spend per trip slowed down its decrease as the global economy moved forward.
- In 2014, growth in visitor arrivals dominated the scene, lifting total spend by 12.3 per cent.
- In 2015, value (as measured by spend per trip) played a much more influential role in lifting total spend by 31.3 per cent in 2015.

The increase in spend per trip is driven by visitors spending more per day. Spend per day was up 18.7 per cent in 2015, to \$189 per day. There was a slight decrease in average length of stay over the same period.

Figure 8 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 2015, it is evident that Asian markets are growing proportionately more than European markets in recent years.

Stand-out markets include the US (arrivals up 10.2 per cent in 2015) and China (arrivals up 34.3 per cent in 2015, having grown 55.2 per cent in the last three years). Arrivals from Australia were strong as well, up by 6.3 per cent, compared to the 2.3 per cent growth experienced in 2014.

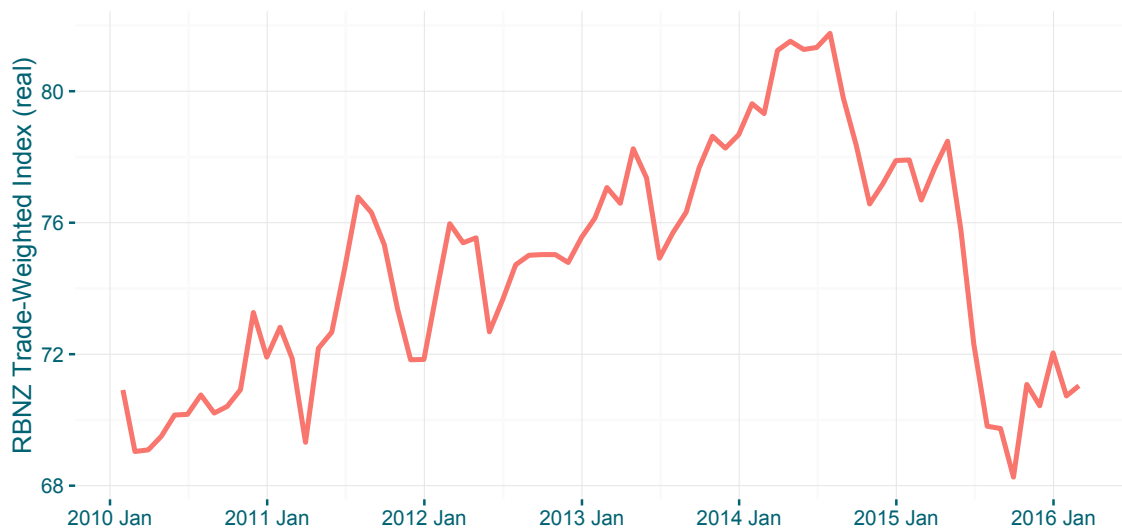
Figure 8: Arrivals from Asian markets are growing



Source: Statistics New Zealand

The sector is growing at strong rates. A favourable exchange rate (weak New Zealand dollar) helped to boost the growth in tourism spend (see Figure 9).

Figure 9: The Trade-Weighted Index has dropped dramatically (12%) since its peak in July 2014



Source: Reserve Bank of New Zealand (RBNZ)

3.2 Future drivers

Many factors drive the propensity to travel overseas, including:

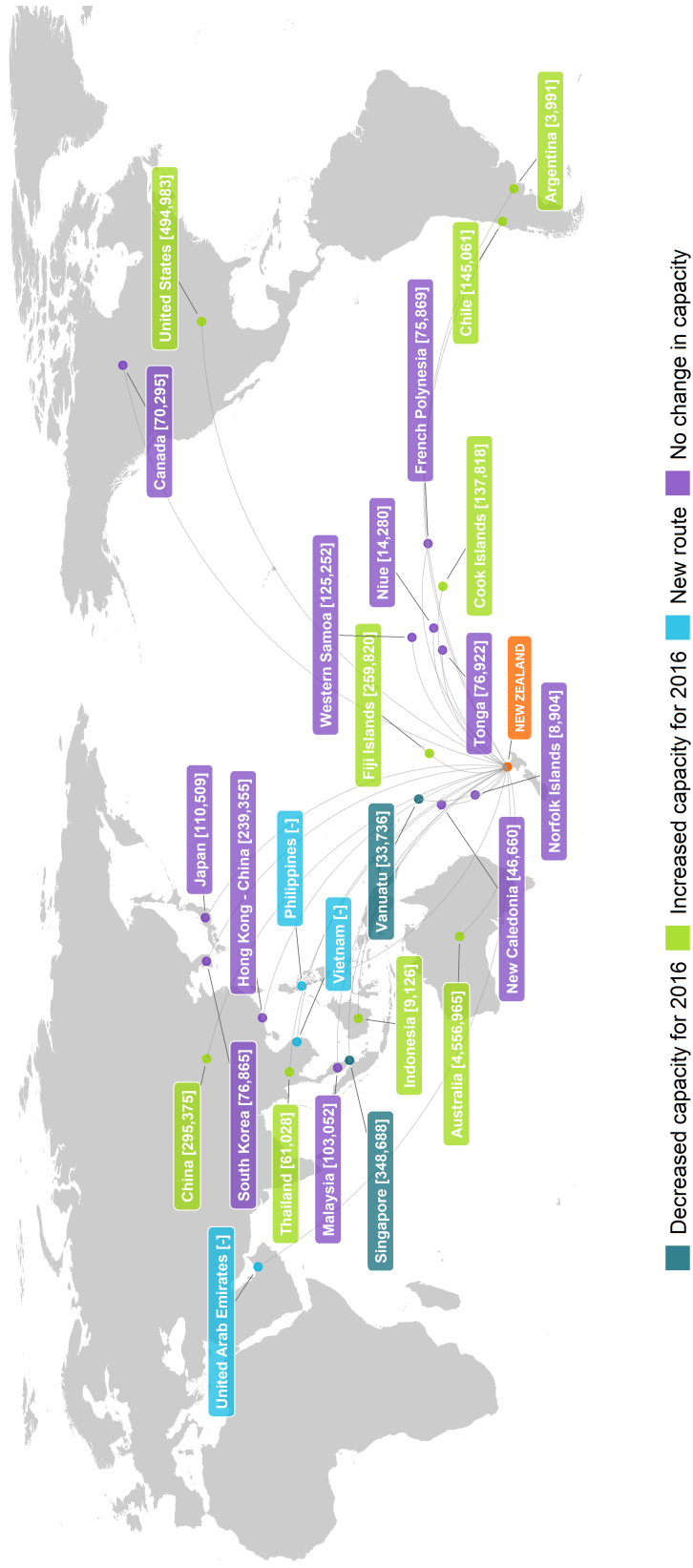
- changes in disposable income
- exchange rates (in determining realised spending)
- influence of destination marketing
- airline route availability and capacity.

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.

■ Airline routes and capacity

The increase in airline connectivity and capacity is one of the key contributors to the increase in international visitors to New Zealand. There will be new airline routes in operation in the next 18 months. In addition, the capacity will also be upgraded for many of the existing routes. Together, they are expected to bring more visitors to New Zealand from all over the world. Figure 10 illustrates how New Zealand is connected to the rest of world through airlines.

Figure 10: New routes and an upgrade in capacity will bring extra visitors to New Zealand from all over the world

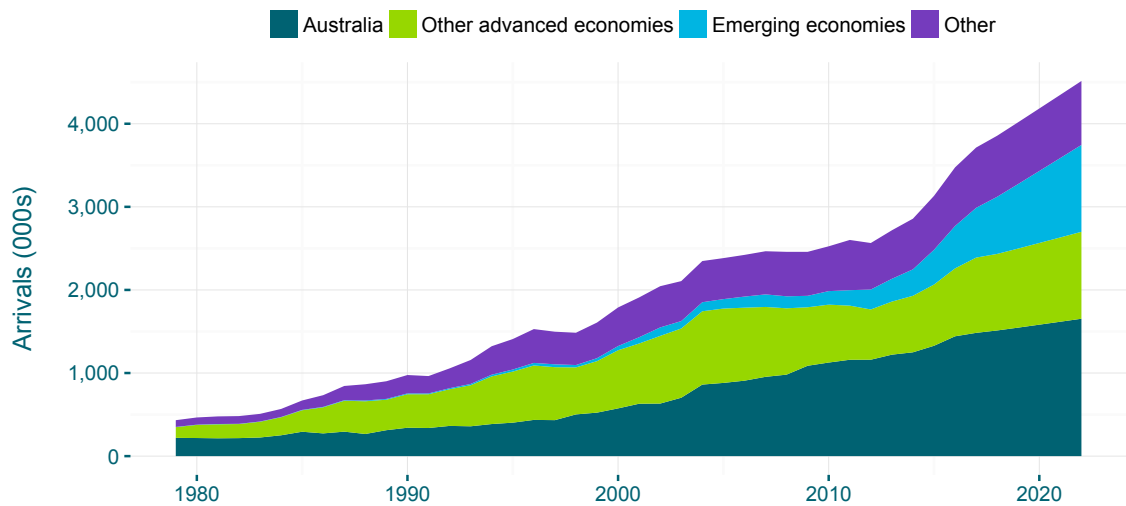


Source: MBIE, Sabre

■ Volume

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

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



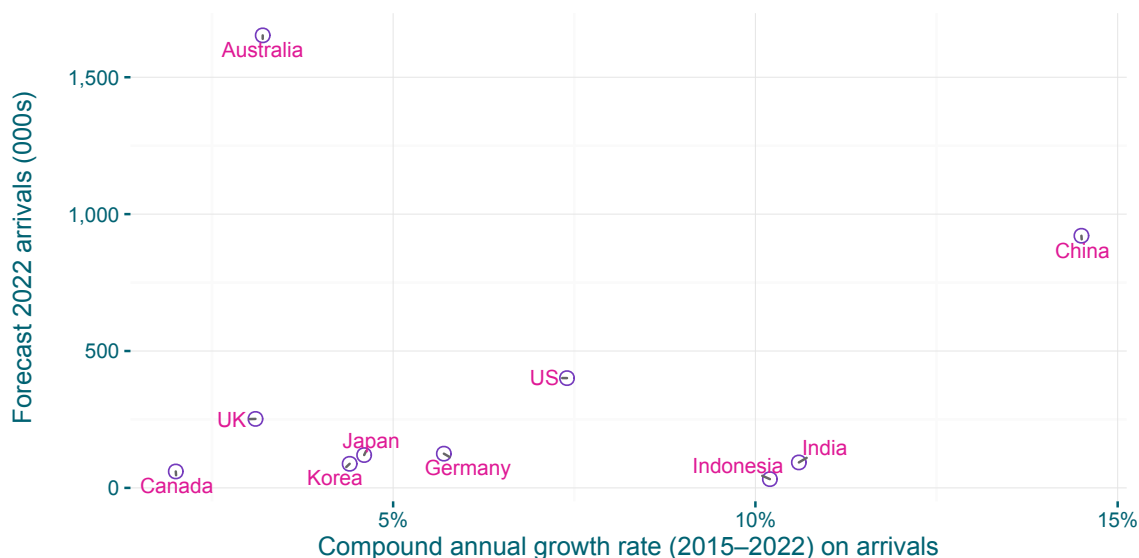
Source: Statistics New Zealand, MBIE

Other 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 markets. Figure 12 shows the forecast year-on-year growth for all markets (x-axis), and their forecast arrival numbers (y-axis). In terms of absolute volume, Australia will remain New Zealand's largest market for arrivals over the forecast period, but growth in visitors from China outstrips all other markets. 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 during the forecast period



Source: MBIE

Advanced economies

As forecast by the International Monetary Fund (IMF) in April 2016,¹ growth in advanced economies is projected to remain modest, in line with 2015 outcomes. The growth is projected to pick up in 2017. In the US, growth is projected to continue at a moderate pace, supported by strengthening balance sheets, no further fiscal drag in 2016, and an improving housing market.

The modest Euro area recovery is projected to continue in 2016 and 2017, with weakening external demand outweighed by the favourable effects of lower energy prices, a modest fiscal expansion, and supportive financial conditions.

In Japan, growth is projected to remain at 0.5 per cent in 2016, before turning slightly negative to –0.1 per cent in 2017 as the scheduled increase in the consumption tax rate (of 2 percentage points) goes into effect.

The picture for other advanced economies is more mixed, reflecting in part uneven effects from lower commodity prices, as well as different degrees of spillovers from the economic rebalancing in China. In the United Kingdom, growth (forecast at 1.9 per cent in 2016 and 2.2 per cent in 2017) is expected to be driven by domestic private demand supported by lower energy prices and a buoyant property market, which help to offset headwinds from fiscal consolidation and heightened uncertainty ahead of the June referendum on European Union membership.

Emerging economies

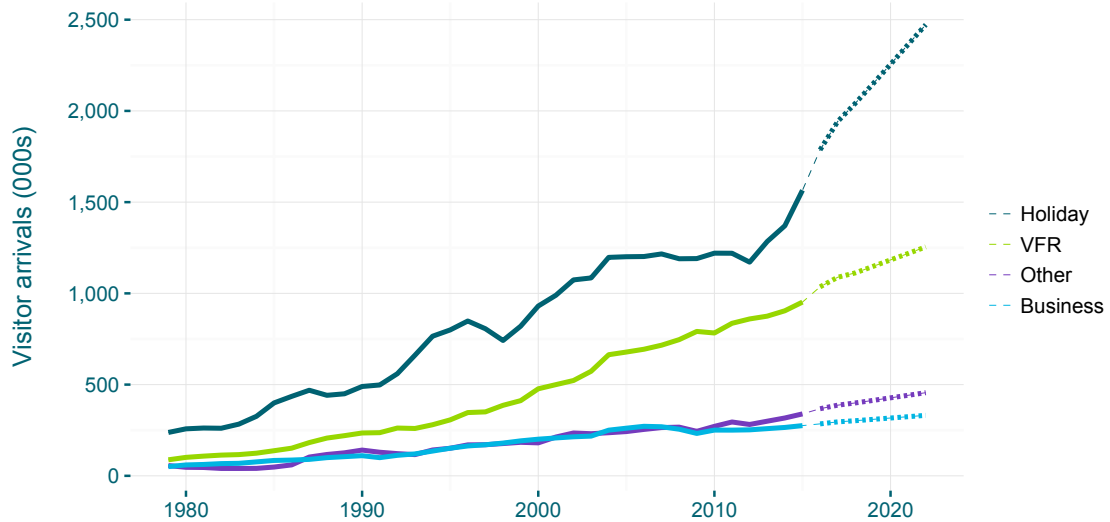
We can expect emerging economies to boost demand for the entire forecast period. Growth in visitor arrivals from emerging economies is complementing growth from advanced economies. China is already New Zealand’s second largest market in terms of visitor arrivals. India, Indonesia

¹International Monetary Fund. April 2016. *World Economic Outlook: Too Slow for Too Long*. Washington DC: IMF

and other emerging markets in South America hold potential, and are growing rapidly, albeit from a low base of visitor arrivals.

Much of New Zealand’s future growth is expected to come from holidaymakers and those visiting friends and relatives (VFR, see Figure 13). This is a critical dynamic. The number of international holidaymakers is expected to improve rapidly over the forecast period.

Figure 13: Growth of international visitors will be largely driven by holidaymakers – visitor arrivals by purpose of visit



Source: Statistics New Zealand, MBIE

Note: VFR stands for visiting friends and relatives

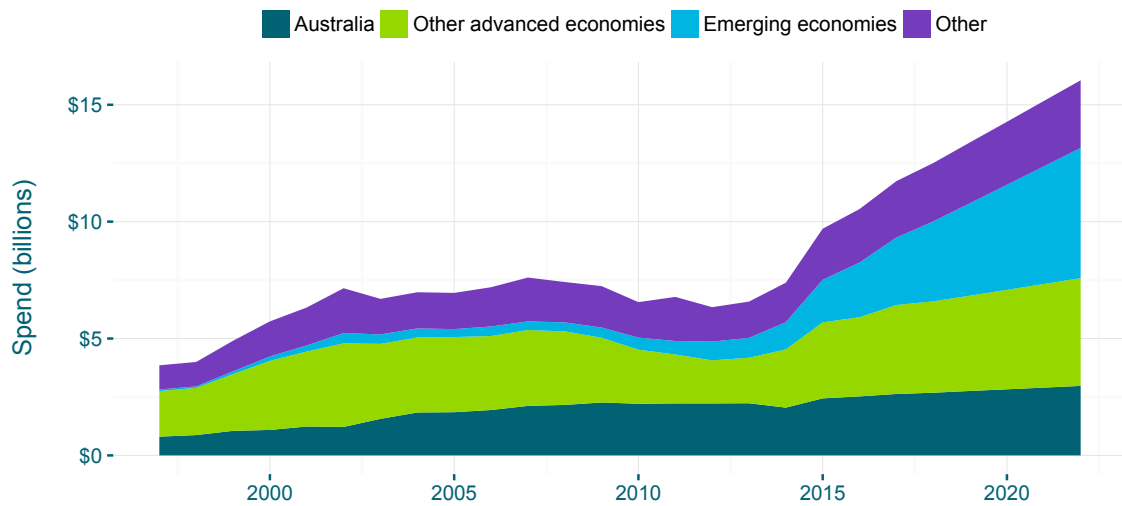
Value

Total spend from all visitor markets is forecast to increase 65.5 per cent to \$16 billion by 2022. Average spend per trip is forecast to increase, primarily driven by an increase in the overall spend with average length of stay remaining static throughout the forecast period.

Total spend is 31.3 per cent higher than it was a year ago. Spend per trip in 2016 is expected to continue to improve. The main driver for increased spend is that visitors are spending more per day while staying roughly the same number of days.

Increasingly, emerging economies are boosting growth in both value and volume. Figure 14 shows that by 2022, visitors from emerging economies such as China, India and Indonesia will contribute a large proportion (34.7 per cent) of the total visitor spend.

Figure 14: Emerging economies will drive growth in spend



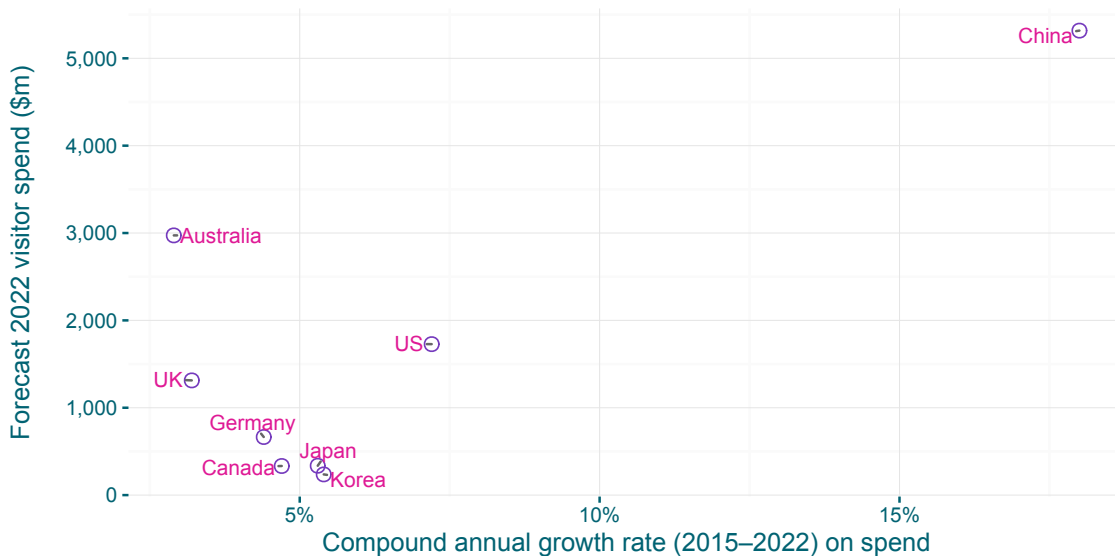
Source: Statistics New Zealand, MBIE

Other advanced economies: UK, US, Canada, Germany, Japan, Korea

Emerging economies: China, India, Indonesia

Figure 15 below shows the annual year-on-year forecast growth for spend across all markets (x-axis), and their forecast spend (y-axis). China will be New Zealand's largest market for spend in 2017, as well as the fast-growing.

Figure 15: China is forecast to be New Zealand's largest market in terms of spend in 2017



Source: MBIE

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 the Americas
 - United Kingdom
 - United States of America
 - Canada
 - Germany

Other markets

Visitor markets classified within 'other' are an important source of visitors for New Zealand. These include emerging markets such as 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 2015, 'other' markets made up 24.1 per cent of total spend to New Zealand, equivalent to \$2.3 billion, and this is expected to grow 34.5 per cent to \$3.1 billion by the year 2022. Total visitors from 'other' markets are expected to grow 28.6 per cent over the forecast period to 894,000 arrivals in 2022.

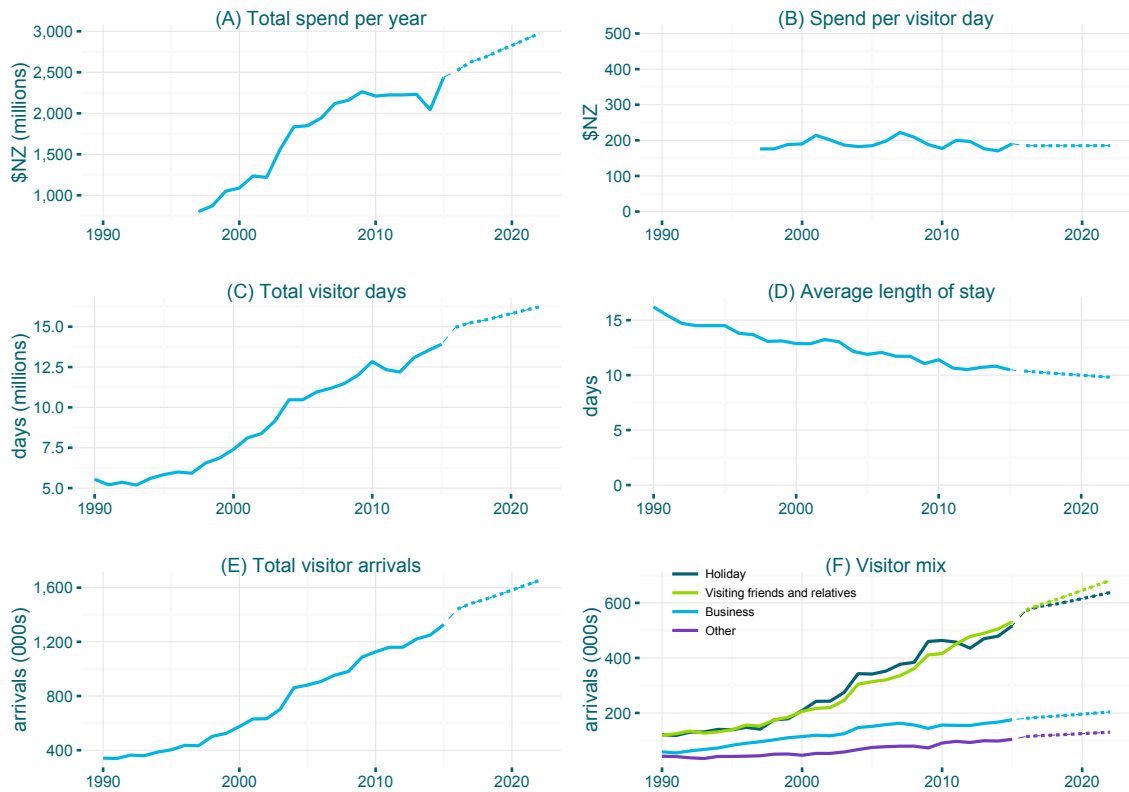
A one-page summary of forecasts for 'other' markets can be found in Appendix A.

4.1 Australia



Summary	2015	2022	Visitor market characteristics ⁴	
Total spend (\$m) ¹	2,440	2,973	GDP per capita (PPP)	45,925
Total visitors (000s) ²	1,328	1,653	Population (millions)	23
Total days (000s) ²	13,917	16,222	Outbound departures (millions)	9
Spend per day (\$) ³	190	185	Outbound spend (USD mn)	26,325
Avg length of stay (days) ²	10	10		

Figure 16: Summary of forecasts: Australia

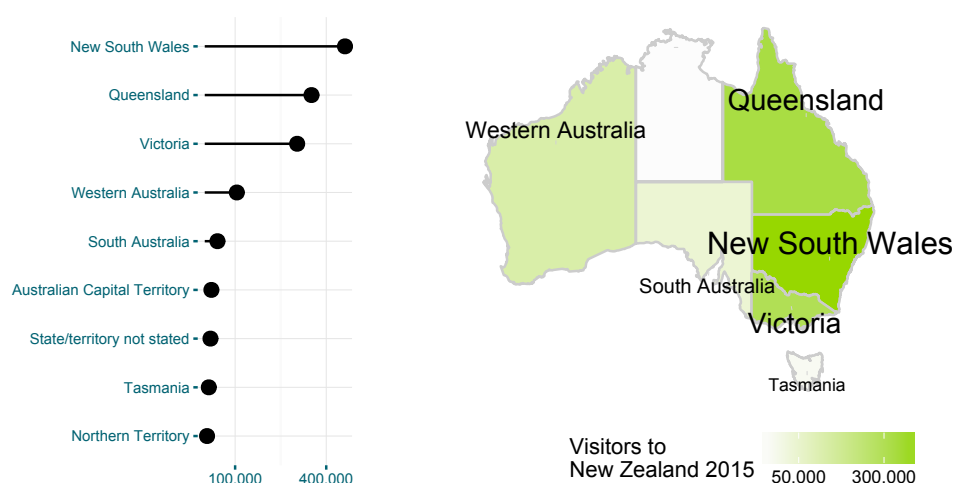


Year	2015	2016	2017	2018	2019	2020	2021	2022	GROWTH	
									Total	Annual ⁵
Total spend (\$m) ¹	2,440	2,524	2,627	2,681	2,757	2,827	2,901	2,973	22%	2.9%
Total visitors (000s) ²	1,328	1,442	1,483	1,512	1,547	1,582	1,618	1,653	25%	3.2%
Total days (000s) ²	13,917	14,959	15,228	15,386	15,593	15,807	16,017	16,222	17%	2.2%
Spend per day (\$) ³	190	185	185	185	185	185	185	185	-3%	-0.4%
Avg length of stay (days) ²	10	10	10	10	10	10	10	10	-6%	-0.9%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics New Zealand; 3. Derived from International Visitor Survey; 4. World Bank data (<http://data.worldbank.org/indicator>); 5. Compound annual growth rate(2015-2022).

Australia is New Zealand’s only major short-haul market and provides many of our international visitor arrivals. Many Australian residents visit friends and relatives, and tend to come more frequently but stay for shorter periods than visitors from long-haul markets. Of the 1.3 million Australian arrivals in 2015, around 30 per cent were New Zealand passport holders. Figure 17 shows the states where 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: Statistics New Zealand

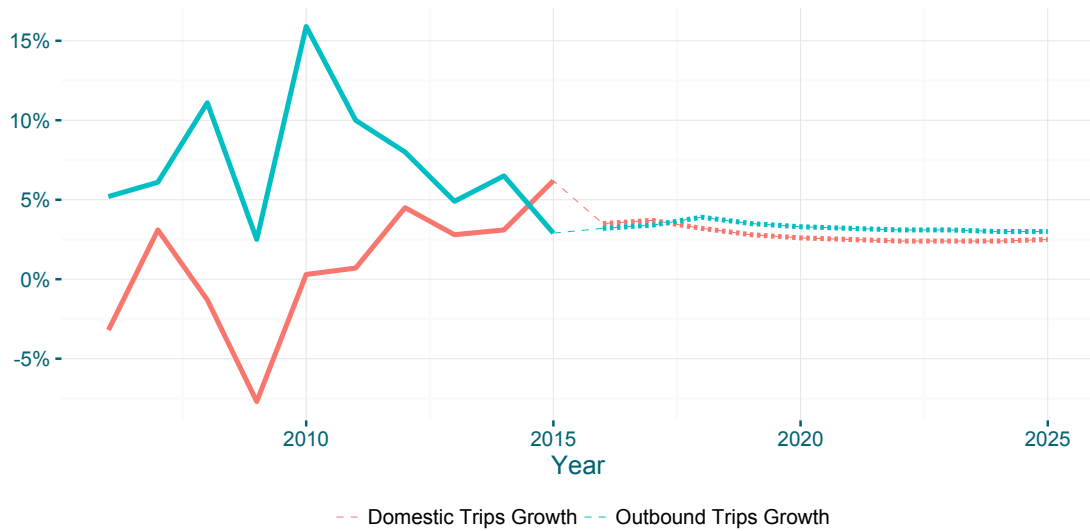
The growth in arrivals from Australia was strong in 2015, up 6.3 per cent from 2.3 per cent a year earlier, driven by stronger than expected economic performance especially in the non-mining sectors.

In the short term, we can expect growth in the Australian market due to increased capacity. Long-term drivers include the movement of New Zealanders, to Australia and the subsequent growth of travellers visiting friends and relatives. However, competition for Australian outbound travellers from Asian markets is intensifying, shown in Figure 19. Looking forward, visitor growth from Australia is likely to be lower than in previous periods.

■ Forecasts and drivers

- When their economy is weak, Australians tend to forego more expensive long-haul holidays and travel to short-haul destinations such as New Zealand, 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).

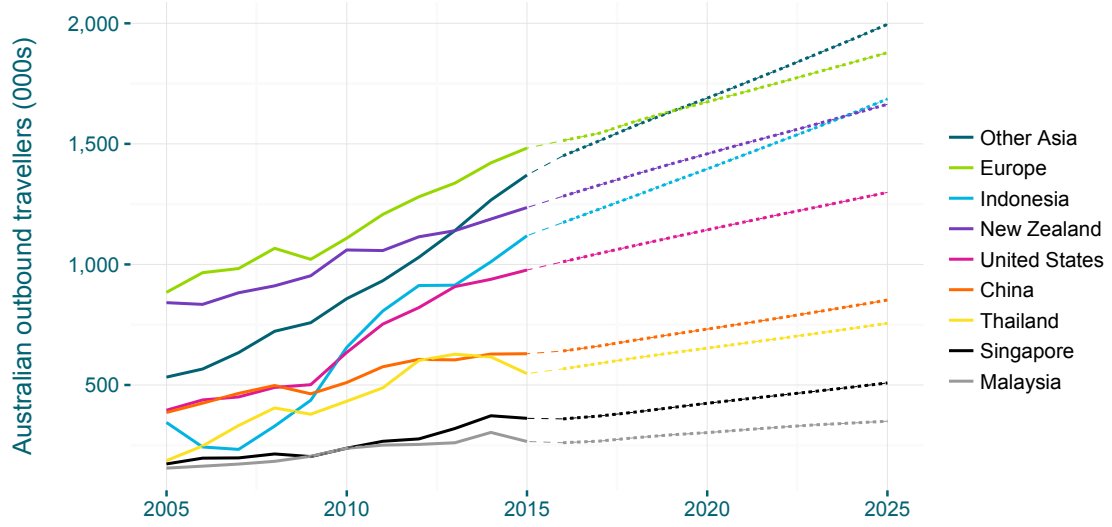
Figure 18: Australian forecasts show a trend towards more international holidays, with strong growth in outbound travellers from Australia (as well as very strong growth in inbound)



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.
- Total spend was up nearly 20 per cent in 2015, recovering from the relatively poor 2014 year. The stronger than expected economic performance and a decrease in air fare prices led to the overall growth, which was partly offset by the weak Australian dollar.
- We expect that the growth in spending will continue into 2016 and 2017 with their good economic perspectives. The recovery across the non-mining economy is either on track or gathering speed. While the downturn in mining regions is becoming more pronounced and the global backdrop remains challenging, activity appears to be broadening across non-mining sectors and states.
- The longer-term outlook for Australia remains optimistic, with the economy expected to rebound, and the movement of New Zealanders (living in Australia) across the Tasman continuing to boost visitor arrivals. The broadening appeal of new and growing Asian markets temper longer-term growth (see Figure 19).

Figure 19: Asian destinations are providing more competition

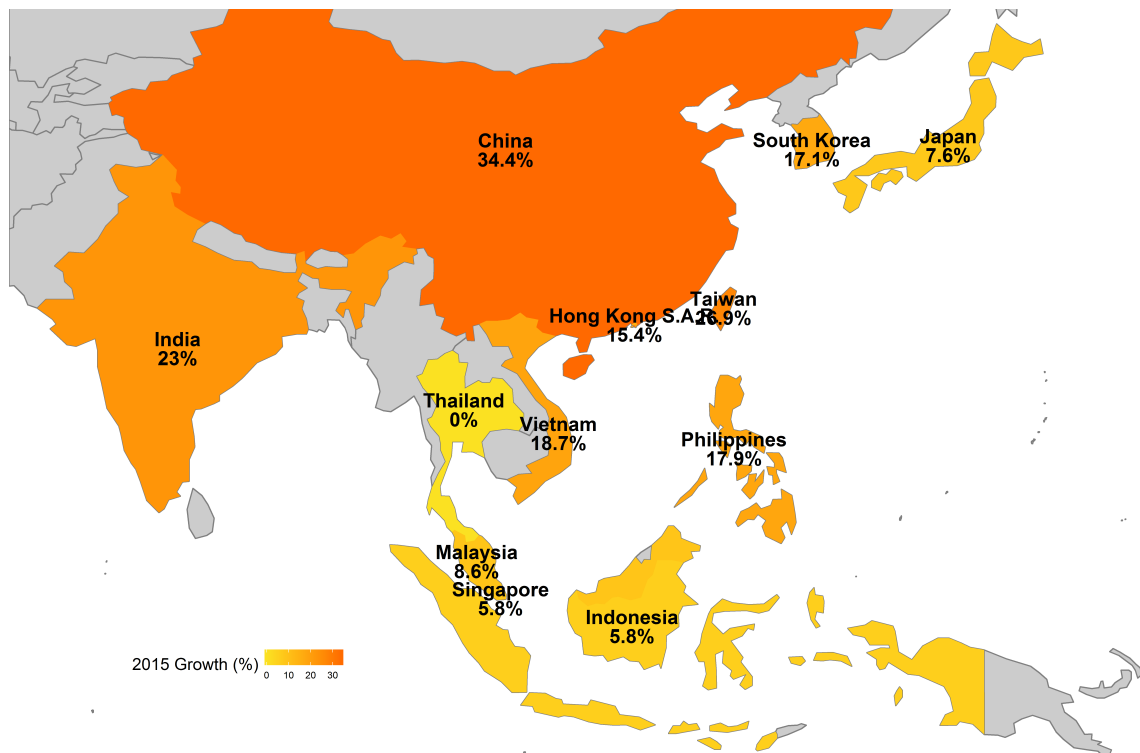


Source: Australian outbound travellers, Tourism Research Australia

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 growing from a smaller visitor base than the dominant China market, it is difficult to surpass the remarkable growth of Chinese visitor arrivals, which are forecast to reach nearly one million by 2022. Total spend from the China market is forecast to overtake Australia by 2017.

Figure 20: Many Asian countries are growing strongly, especially China – change in total arrivals for the year ending 2015 on the previous year



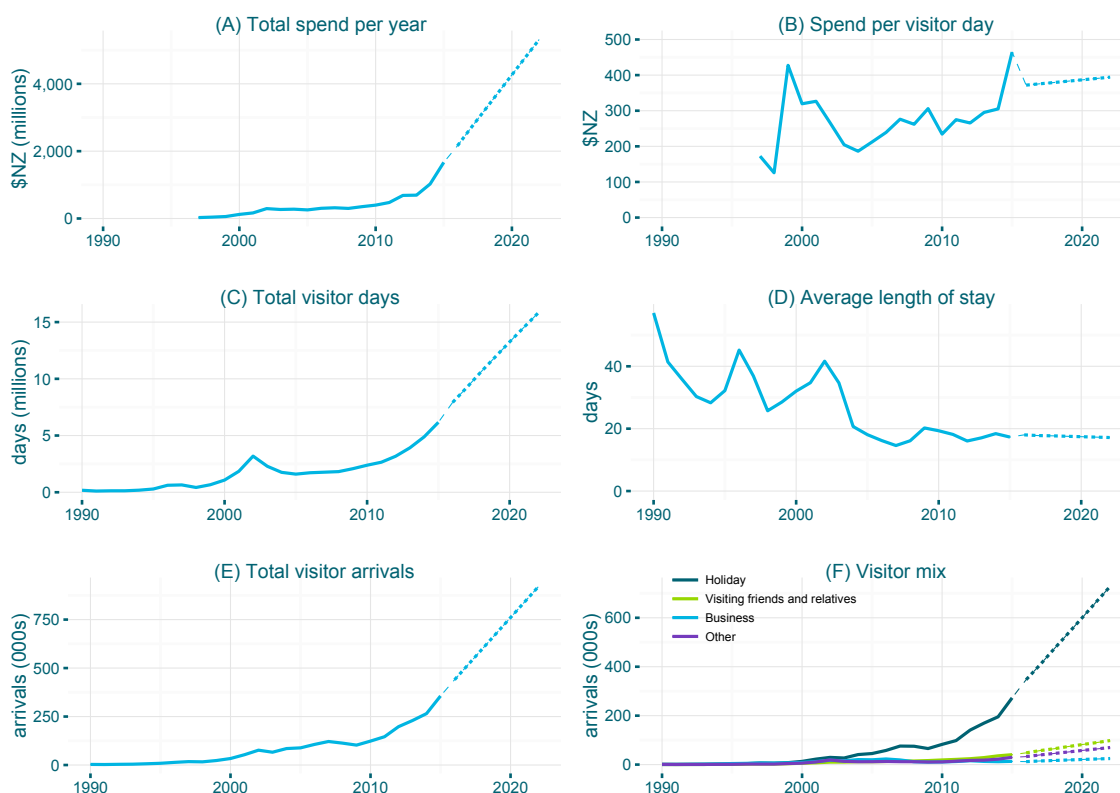
Source: Growth in visitor arrivals to New Zealand, year to December 2015, Statistics New Zealand

China



Summary	2015	2022	Visitor market characteristics ⁴		
Total spend (\$m) ¹	1,668	5,317	↑	GDP per capita (PPP)	13,206
Total visitors (000s) ²	356	921	↑	Population (millions)	1,364
Total days (000s) ²	6,165	15,805	↑	Outbound departures (millions)	98
Spend per day (\$) ³	465	394	↓	Outbound spend (USD mn)	164,859
Avg length of stay (days) ²	17	17	→		

Figure 21: Summary of forecasts: China



Year	2015	2016	2017	2018	2019	2020	2021	2022	GROWTH	
									Total	Annual ⁵
Total spend (\$m) ¹	1,668	2,158	2,693	3,215	3,741	4,266	4,792	5,317	219%	18%
Total visitors (000s) ²	356	440	520	600	680	761	841	921	159%	14.5%
Total days (000s) ²	6,165	7,921	9,246	10,624	11,942	13,256	14,539	15,805	156%	14.4%
Spend per day (\$) ³	465	372	376	379	383	387	390	394	-15%	-2.3%
Avg length of stay (days) ²	17	18	18	18	18	17	17	17	-1%	-0.1%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics New Zealand; 3. Derived from International Visitor Survey; 4. World Bank data (<http://data.worldbank.org/indicator>); 5. Compound annual growth rate(2015-2022).

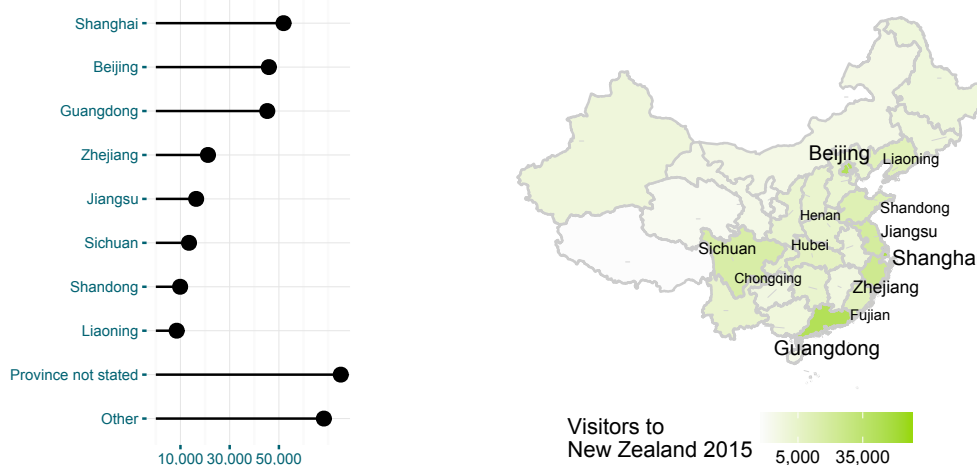
Last year Chinese visitors spent almost \$1.7 billion dollars in the New Zealand economy. Provided the New Zealand tourism industry can continue to deliver a great visitor experience for this market and economic conditions in China continue to hold, we can expect strong growth to persist.

The Chinese 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 2015, total spend from China grew 62.7 per cent. Contributing to this rise was a growth in visitor arrivals, up 34.3 per cent, to 356,000, and spend per day up 52.3 per cent to \$465 per day. The rise was offset by a slight decrease in average length of stay, down 6 per cent (to 17 days).

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 flights through hubs in Australia and Singapore.

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

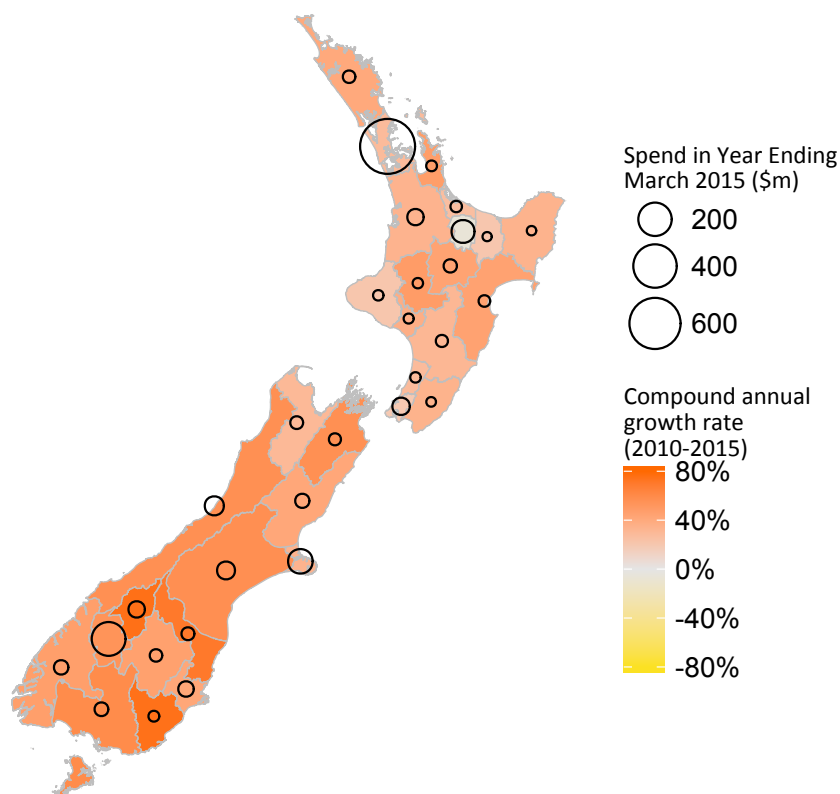


Source: Visitor arrivals to New Zealand by Chinese province, year to December 2015, Statistics New Zealand

■ Forecasts and drivers

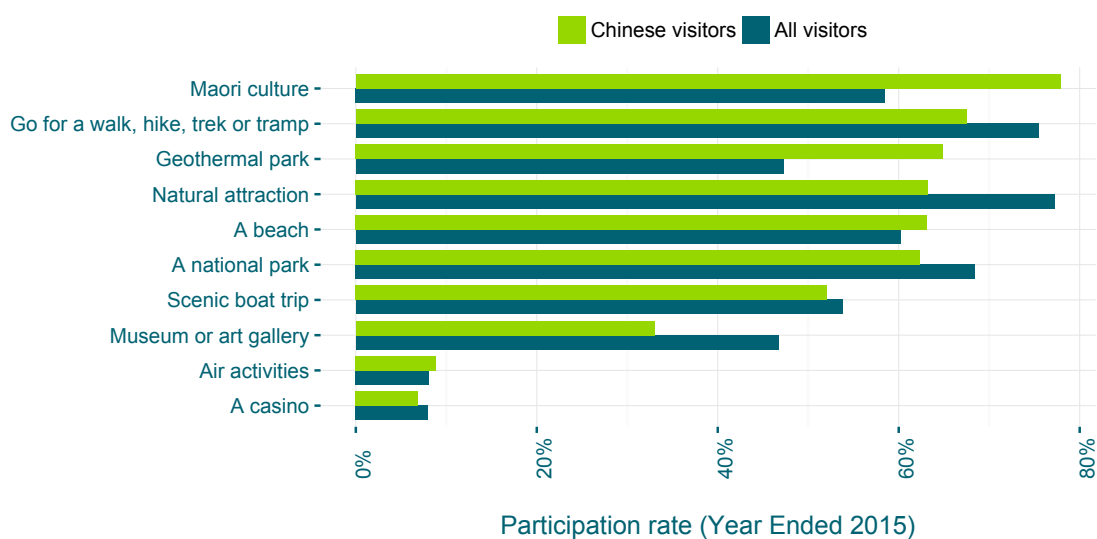
- There is an increasing proportion of free and independent travellers (FITs) from the China market - these visitors tend to stay much longer than visitors on group shopping tours. This, in turn, has helped lift spend from this market.
- With more FITs from China, the travel patterns of this market are 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. Figure 24 shows the most and least popular activities undertaken by Chinese visitors in 2015, compared with participation rates of all international visitors. The changes in travel patterns for the Chinese 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

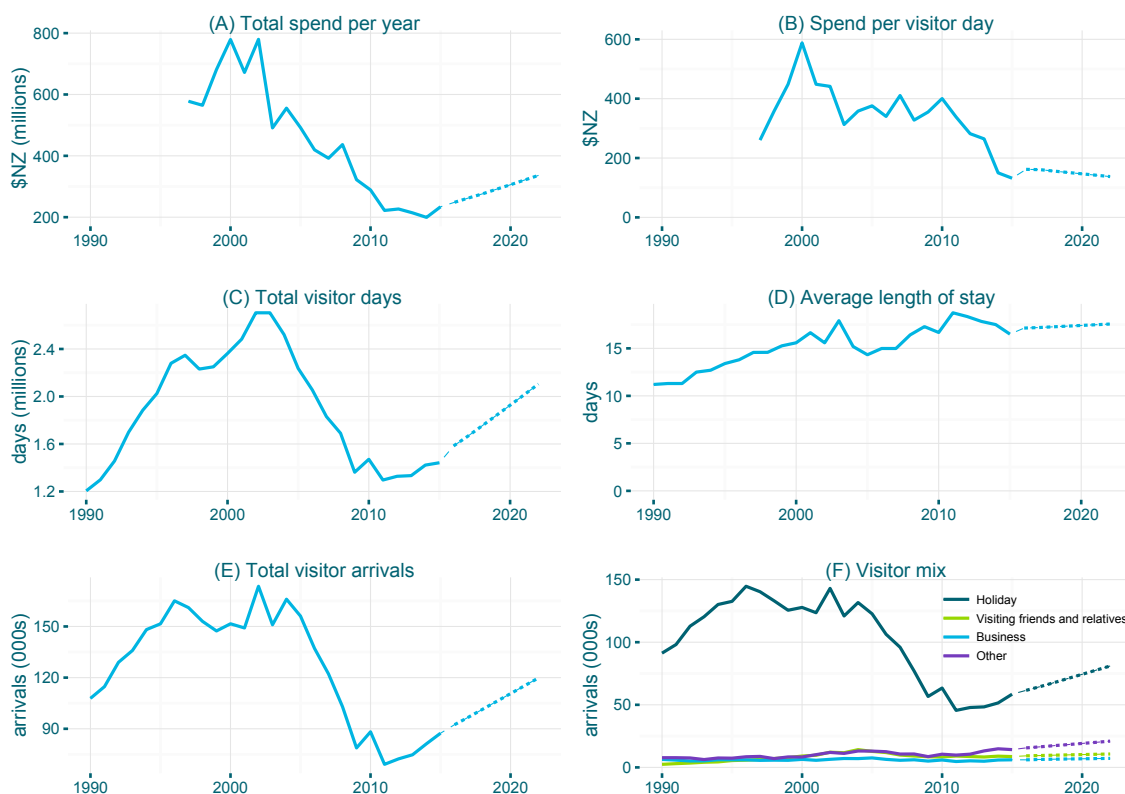
- Chinese economic growth is expected to be below seven per cent over the next two to three years, as China rebalances its economy and increases its quality of economic growth, reorienting itself towards consumption and services and away from exports. These factors encourage rather than hinder Chinese households from undertaking international travel. We expect visitor arrivals from China to continue to grow strongly over the forecast horizon.

Japan



Summary	2015	2022		Visitor market characteristics ⁴	
Total spend (\$m) ¹	234	336	↑	GDP per capita (PPP)	36,619
Total visitors (000s) ²	87	120	↑	Population (millions)	127
Total days (000s) ²	1,442	2,104	↑	Outbound departures (millions)	17
Spend per day (\$) ³	132	138	↑	Outbound spend (USD mn)	19,311
Avg length of stay (days) ²	16	18	↑		

Figure 25: Summary of forecasts: Japan



Year	2015	2016	2017	2018	2019	2020	2021	2022	GROWTH	
									Total	Annual ⁵
Total spend (\$m) ¹	234	249	263	276	291	306	321	336	44%	5.3%
Total visitors (000s) ²	87	92	97	101	106	111	115	120	37%	4.6%
Total days (000s) ²	1,442	1,583	1,665	1,751	1,838	1,926	2,015	2,104	46%	5.5%
Spend per day (\$) ³	132	162	161	156	151	147	142	138	4%	0.6%
Avg length of stay (days) ²	16	17	17	17	17	17	17	18	6%	0.9%

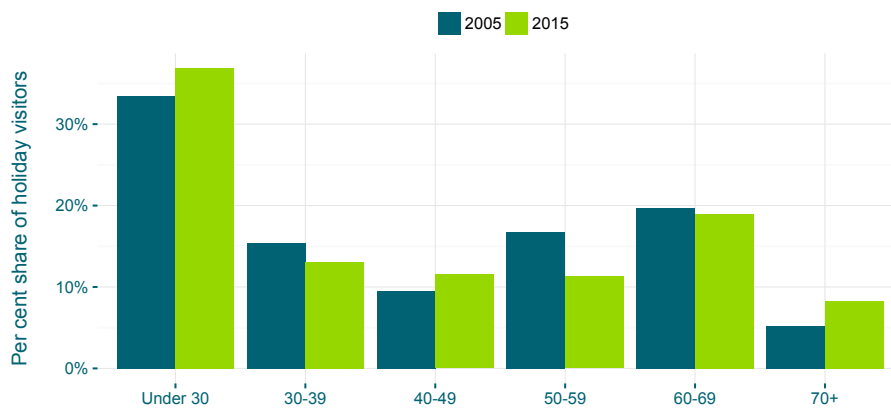
1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics New Zealand; 3. Derived from International Visitor Survey; 4. World Bank data (<http://data.worldbank.org/indicator>); 5. Compound annual growth rate(2015-2022).

The outlook for Japan is positive. Visitor growth maintained its momentum in 2015, up 7.6 per cent on a year earlier, exceeding expectations in last year's forecasts. Visitor spending also increased by 17.3 per cent over the same period.

■ Forecasts and drivers

- Although Japanese visitor arrivals were up 7.6 per cent in 2015, 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.

Figure 26: Japanese visitors are now much younger than before



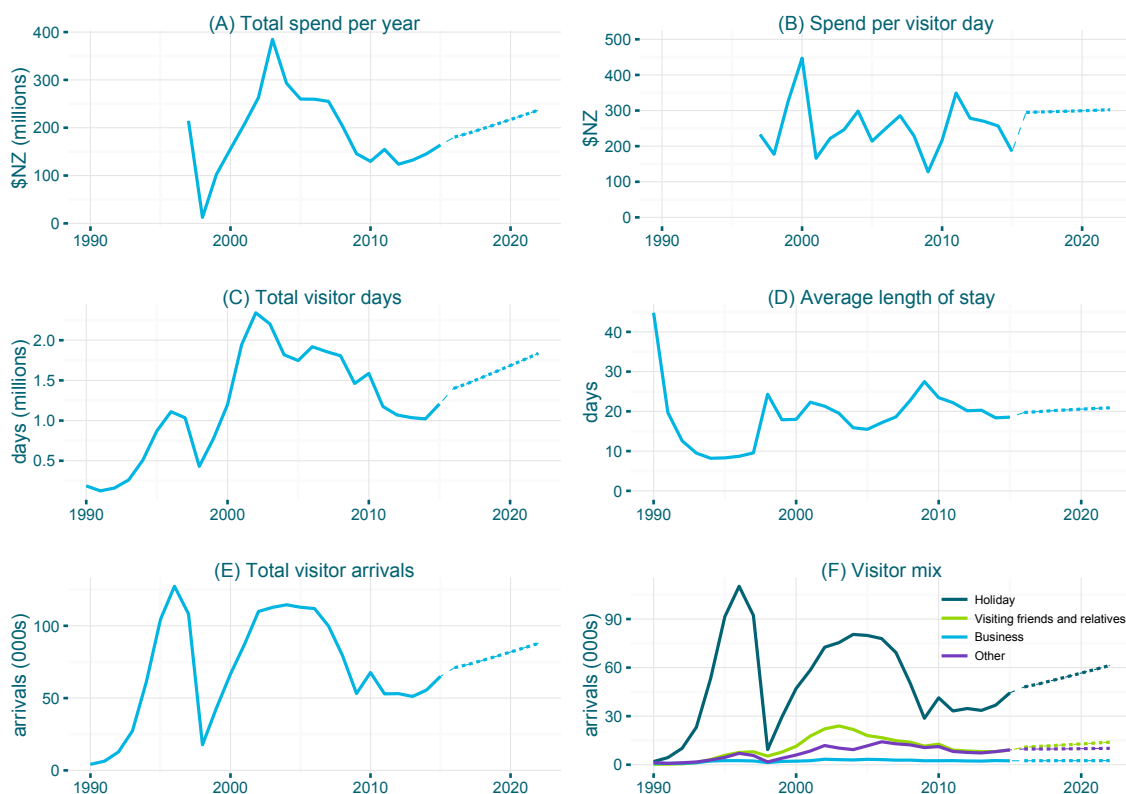
Source: MBIE

South Korea



Summary	2015	2022		Visitor market characteristics ⁴	
Total spend (\$m) ¹	164	237	↑	GDP per capita (PPP)	33,395
Total visitors (000s) ²	65	88	↑	Population (millions)	50
Total days (000s) ²	1,206	1,836	↑	Outbound departures (millions)	16
Spend per day (\$) ³	185	302	↑	Outbound spend (USD mn)	23,465
Avg length of stay (days) ²	19	21	↑		

Figure 27: Summary of forecasts: Korea



Year	2015	2016	2017	2018	2019	2020	2021	2022	GROWTH	
									Total	Annual ⁵
Total spend (\$m) ¹	164	180	189	198	207	217	227	237	45%	5.4%
Total visitors (000s) ²	65	71	73	76	79	82	85	88	35%	4.4%
Total days (000s) ²	1,206	1,400	1,462	1,536	1,609	1,684	1,759	1,836	52%	6.2%
Spend per day (\$) ³	185	295	296	297	298	299	301	302	63%	7.3%
Avg length of stay (days) ²	19	20	20	20	20	21	21	21	13%	1.7%

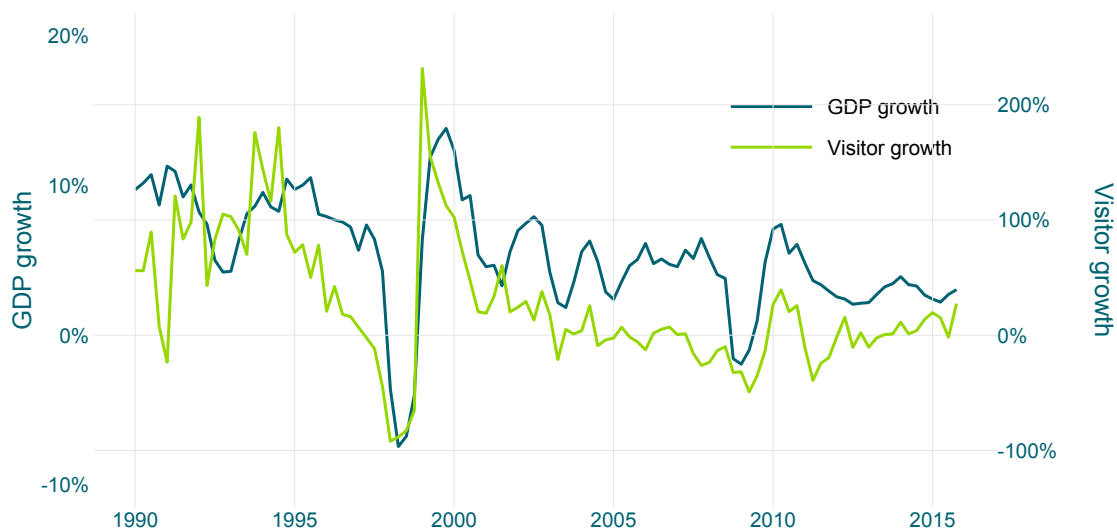
1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics New Zealand; 3. Derived from International Visitor Survey; 4. World Bank data (<http://data.worldbank.org/indicator>); 5. Compound annual growth rate(2015-2022).

Korean visitor arrivals increased 17.1 per cent in 2015, to 65,000 visitors. Korean household consumption has improved in 2015 and is expected to continue. The South 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

- South Korea's economy improved in 2015. Most analysts expect this growth to continue in 2016 and 2017. Interest rates have been low, stimulating consumption and investment in the economy. This contributes to economic growth, which helps to support outbound tourism.
- Unlike many other markets, the won has been appreciating against the New Zealand dollar, lifting spending from this market.
- Risks to the outlook include a softening in China's economy and/or the global economy and the subsequent flow-on impact on the South Korean economy, but South Korean policy-makers have 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

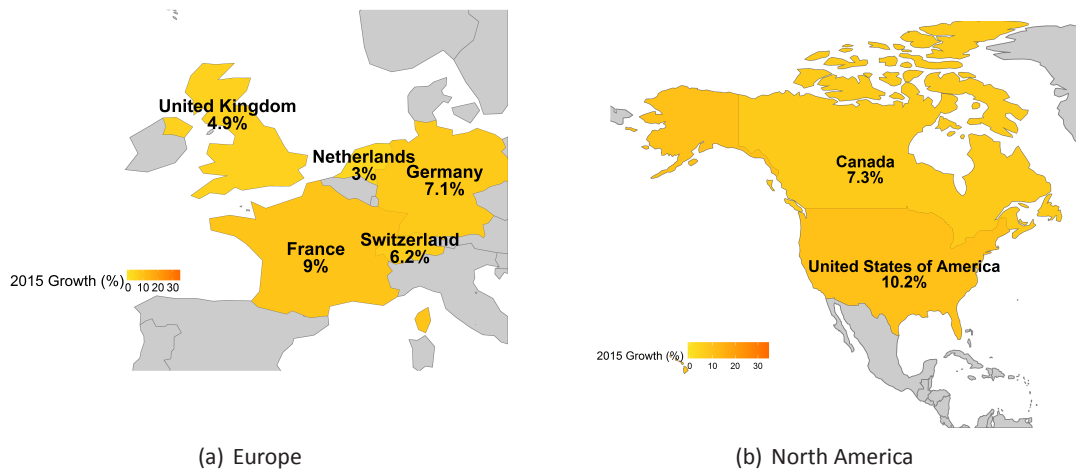


Source: Datastream

4.3 Europe and the Americas

Visitor arrivals from advanced economies in Europe and North America continued to climb in 2015. Strong US visitor growth led the way, outperforming other countries. Growth in advanced economies is projected to improve in 2016, and hold steady in 2017. Overall activity remains resilient in the United States, supported by moderate financial conditions and strengthening housing and labour markets. 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 2015



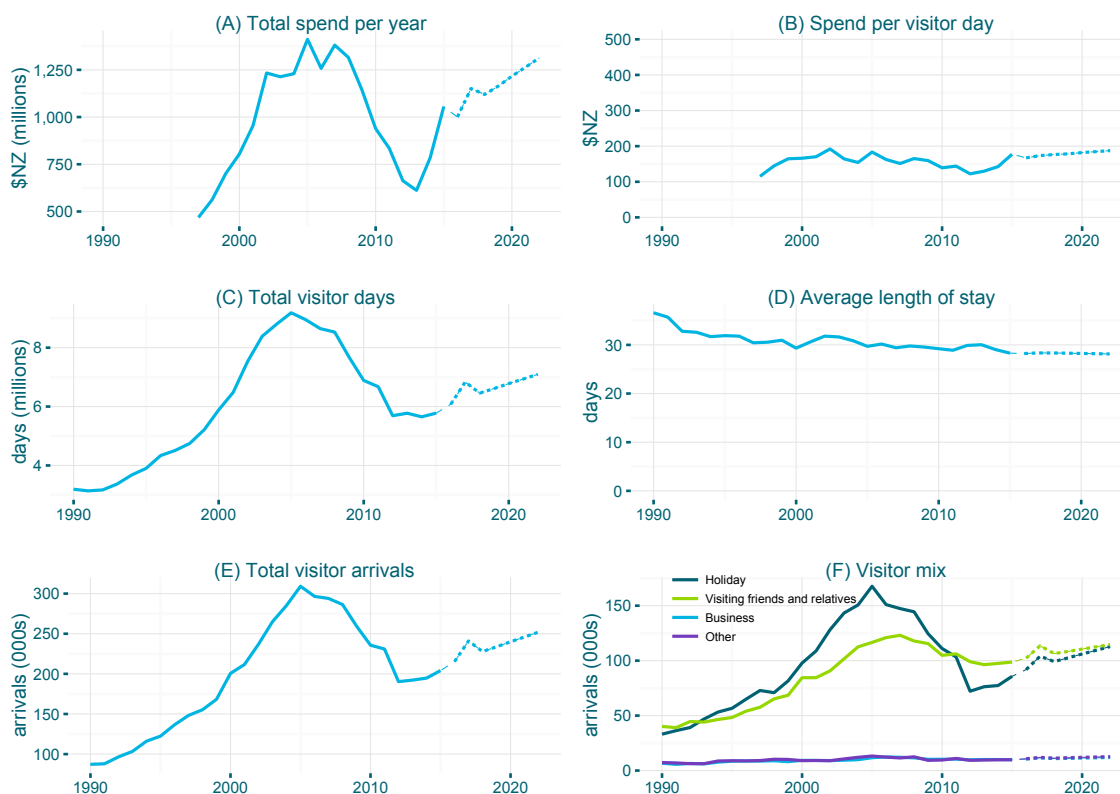
Source: Growth in visitor arrivals, year ending December 2015, Statistics New Zealand

United Kingdom



Summary	2015	2022		Visitor market characteristics ⁴
Total spend (\$m) ¹	1,055	1,313	↑	GDP per capita (PPP)
Total visitors (000s) ²	204	252	↑	Population (millions)
Total days (000s) ²	5,777	7,094	↑	Outbound departures (millions)
Spend per day (\$) ³	177	187	↑	Outbound spend (USD mn)
Avg length of stay (days) ²	28	28	→	

Figure 30: Summary of forecasts: UK



Year	GROWTH									
	2015	2016	2017	2018	2019	2020	2021	2022	Total	Annual ⁵
Total spend (\$m) ¹	1,055	1,000	1,151	1,120	1,164	1,216	1,264	1,313	24%	3.2%
Total visitors (000s) ²	204	215	241	228	234	240	246	252	23%	3.1%
Total days (000s) ²	5,777	6,076	6,833	6,457	6,613	6,780	6,935	7,094	23%	3%
Spend per day (\$) ³	177	167	174	176	178	182	185	187	6%	0.8%
Avg length of stay (days) ²	28	28	28	28	28	28	28	28	-1%	-0.1%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics New Zealand; 3. Derived from International Visitor Survey; 4. World Bank data (<http://data.worldbank.org/indicator>); 5. Compound annual growth rate(2015-2022).

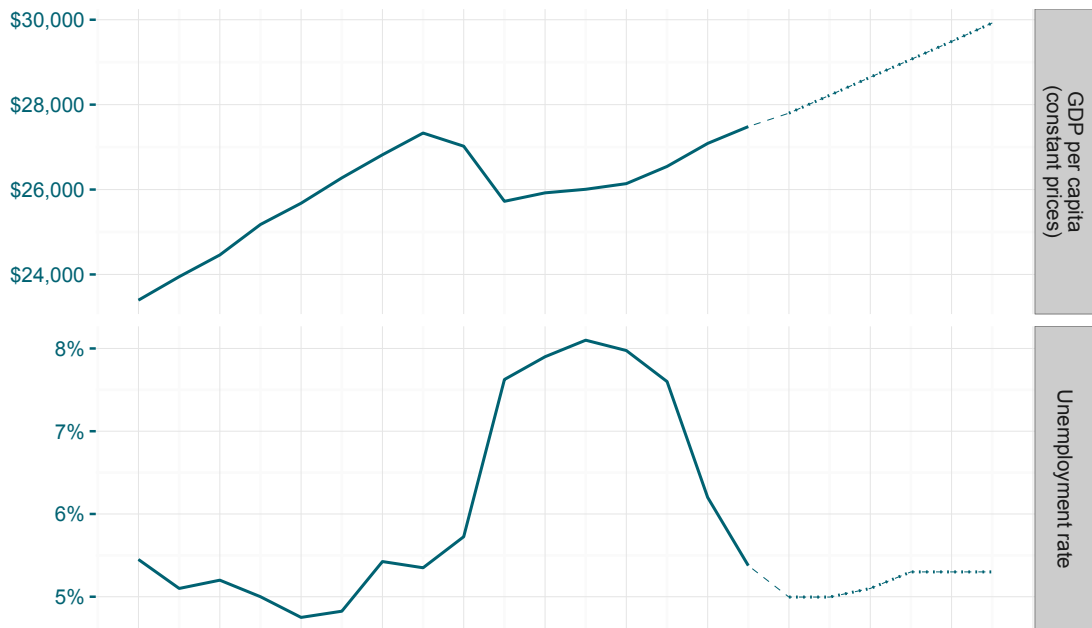
Economic growth in the UK has been modest. Inflation has been close to zero, allowing the Bank of England to maintain extremely low levels of interest rates. Whilst this has helped consumers reduce debt after a prolonged recession, it has also kept the British pound low against the soaring New Zealand dollar. Visitor growth was modest in 2015, up 4.8 per cent, backing up the positive visitor growth in 2014 after several stagnant years. The UK economy is picking up and household consumption is expected to grow.

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

■ Forecasts and drivers

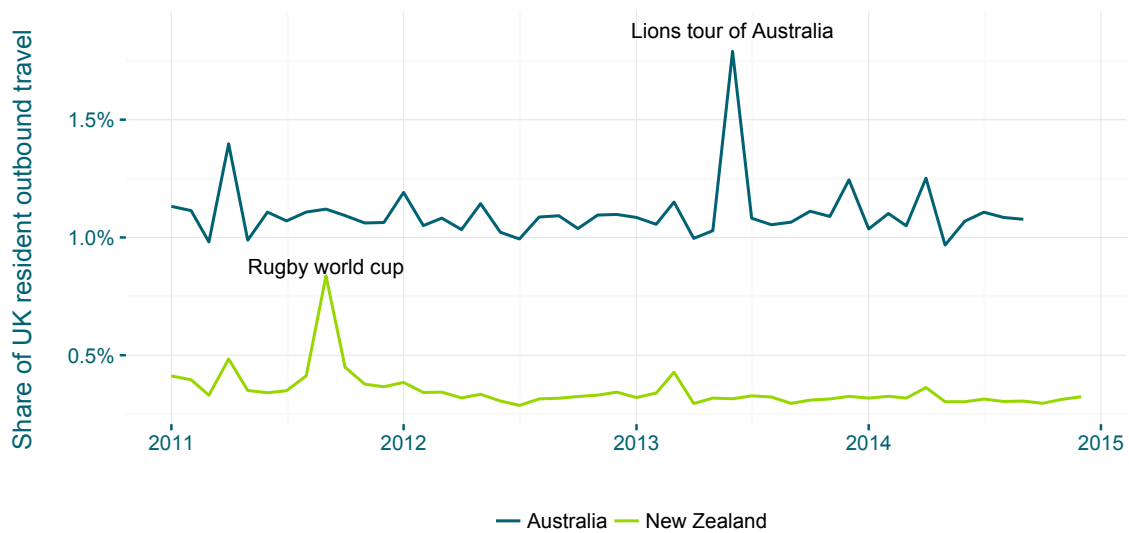
- The UK economy is improving, with extended periods of low interest rates helping households reduce debt and boost the local economy. A weak fiscal position and modest growth in key trading partners are expected to limit growth.
- Households have benefited from cheaper energy prices - both oil and domestic - 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 2015, 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 and the Masters Games, will boost visitor arrivals based on evidence from previous events (see Figure 32).
- Uncertainty is created by the referendum on 21 June on whether the UK will remain in the European Union. As forecast by the IMF, the UK economy could slow down as a result of 'Brexit'.

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 and the Masters Games



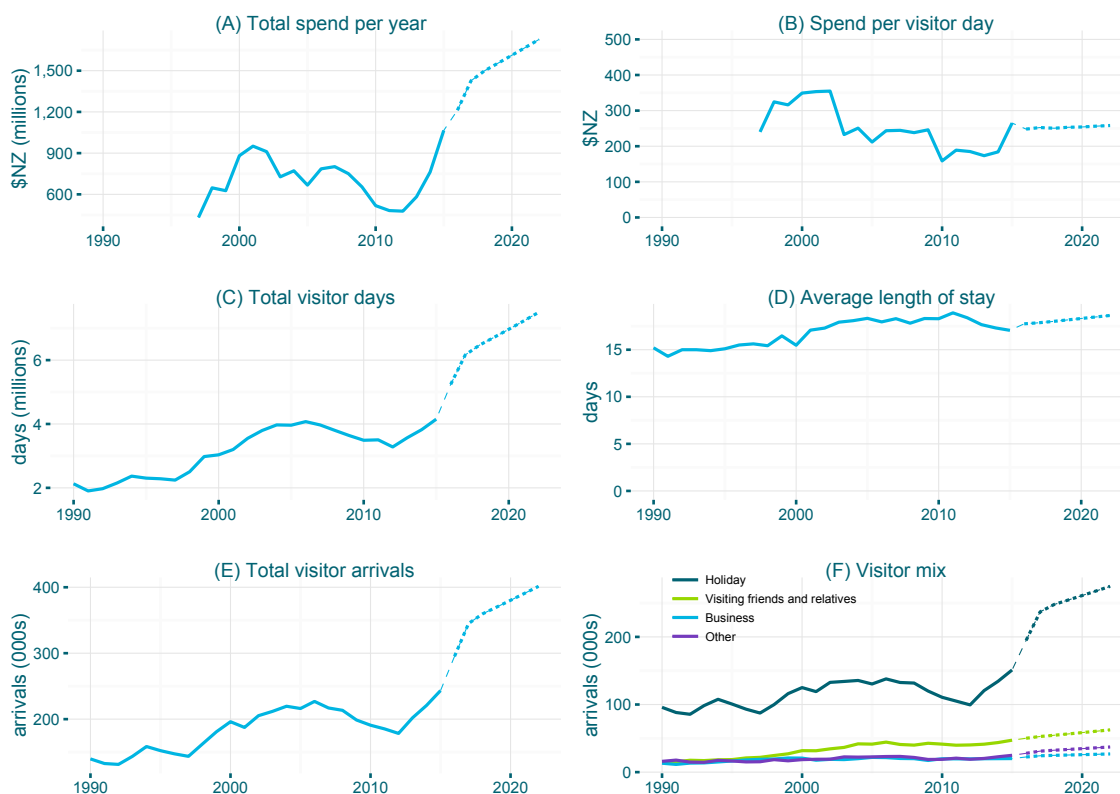
Source: Tourism Research Australia, Statistics New Zealand

United States of America

11%
Share of all
spend in NZ

Summary	2015	2022	Visitor market characteristics ⁴	
Total spend (\$m) ¹	1,065	1,728	GDP per capita (PPP)	54,629
Total visitors (000s) ²	243	401	Population (millions)	319
Total days (000s) ²	4,150	7,480	Outbound departures (millions)	68
Spend per day (\$) ³	265	258	Outbound spend (USD mn)	110,788
Avg length of stay (days) ²	17	19		

Figure 33: Summary of forecasts: US



Year	2015	2016	2017	2018	2019	2020	2021	2022	GROWTH	
									Total	Annual ⁵
Total spend (\$m) ¹	1,065	1,212	1,426	1,500	1,556	1,612	1,670	1,728	62%	7.2%
Total visitors (000s) ²	243	295	345	360	370	380	391	401	65%	7.4%
Total days (000s) ²	4,150	5,241	6,162	6,474	6,716	6,965	7,219	7,480	80%	8.8%
Spend per day (\$) ³	265	248	252	250	253	254	256	258	-3%	-0.4%
Avg length of stay (days) ²	17	18	18	18	18	18	18	19	9%	1.3%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics New Zealand; 3. Derived from International Visitor Survey; 4. World Bank data (<http://data.worldbank.org/indicator>); 5. Compound annual growth rate(2015-2022).

Visitor growth from the US continues at pace with visitor arrivals increasing by 10.2 per cent in 2015, following a 9.3 per cent increase in 2014. US visitor arrivals have exceeded their pre-GFC peak of 227,000 in 2006.

Combined with strong volume growth, total spend from the US market increased by 39.7 per cent. This growth in spending is unprecedented since records began in 1997. Spending by US visitors continues to recover, with average spend per day up 43.9 per cent in 2015 to \$265 on average per day. This is driven by an increase in real disposable income for Americans, coupled with a strong US dollar.

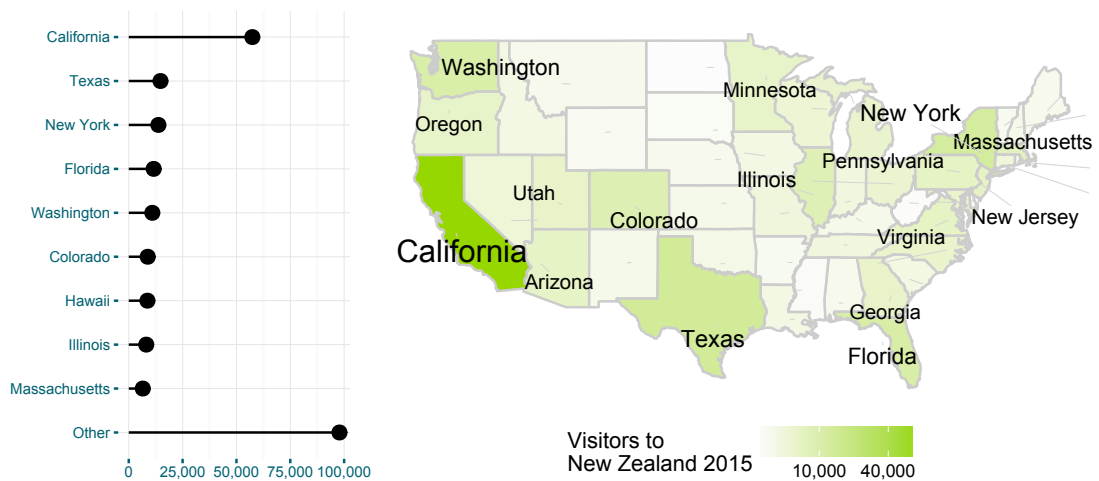
Growth in visitor arrivals will be solid in the next couple of years due to the addition of new air routes, and upgraded air capacity. Over the long term, growth will continue. The improving economy and stronger US dollar is expected to boost spending of US visitors that come to New Zealand.

■ Forecasts and drivers

- The stronger economy in the US is lifting the global US outbound market, up 6.1 per cent in 2014 and 6.5 per cent in 2015. The New Zealand market continues to outperform many other competing markets in Africa, Asia and South America.
- US economic growth is projected to improve in 2016, and hold steady in 2017. Overall activity remains resilient in the United States, supported by moderate financial conditions and strengthening housing and labour markets.
- The US labour market shows significant improvement with unemployment at 5 per cent in March 2016.
- 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.

- 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 2015, most US visitors to New Zealand came from California. Air New Zealand's new route to Houston from December 2015 has opened up a direct connection between New Zealand and America's south for the first time. As a result, Texas became the second largest state in terms of arrivals to New Zealand, with an increase of 16 per cent in the year ended December 2015.

Figure 34: Most of US visitors to New Zealand came from California in 2015



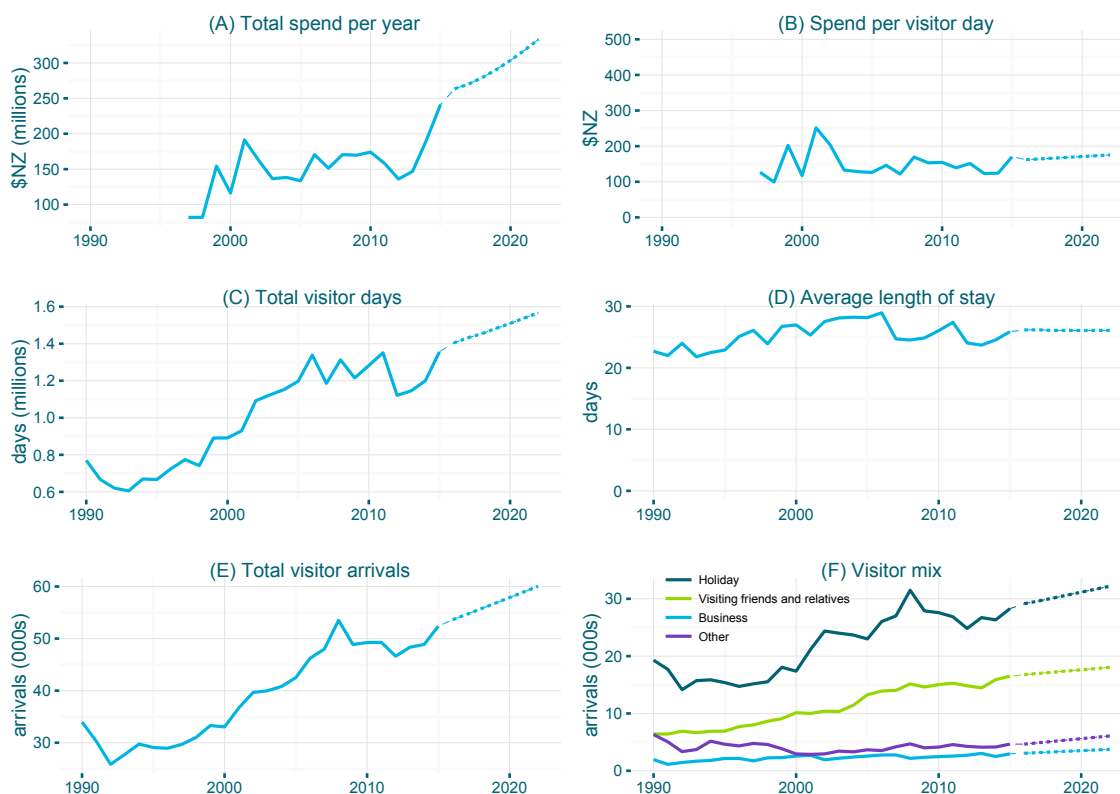
Source: Visitor arrivals to New Zealand by US state, year to December 2015, Statistics New Zealand

Canada



Summary	2015	2022		Visitor market characteristics ⁴	
Total spend (\$m) ¹	241	333	↑	GDP per capita (PPP)	45,066
Total visitors (000s) ²	52	60	↑	Population (millions)	36
Total days (000s) ²	1,356	1,567	↑	Outbound departures (millions)	34
Spend per day (\$) ³	170	175	↑	Outbound spend (USD mn)	33,817
Avg length of stay (days) ²	26	26	→		

Figure 35: Summary of forecasts: Canada



Year	2015	2016	2017	2018	2019	2020	2021	2022	GROWTH	
									Total	Annual ⁵
Total spend (\$m) ¹	241	263	270	280	291	304	318	333	38%	4.7%
Total visitors (000s) ²	52	54	55	56	57	58	59	60	15%	2%
Total days (000s) ²	1,356	1,404	1,431	1,454	1,483	1,510	1,538	1,567	16%	2.1%
Spend per day (\$) ³	170	162	164	166	169	171	173	175	3%	0.4%
Avg length of stay (days) ²	26	26	26	26	26	26	26	26	1%	0.1%

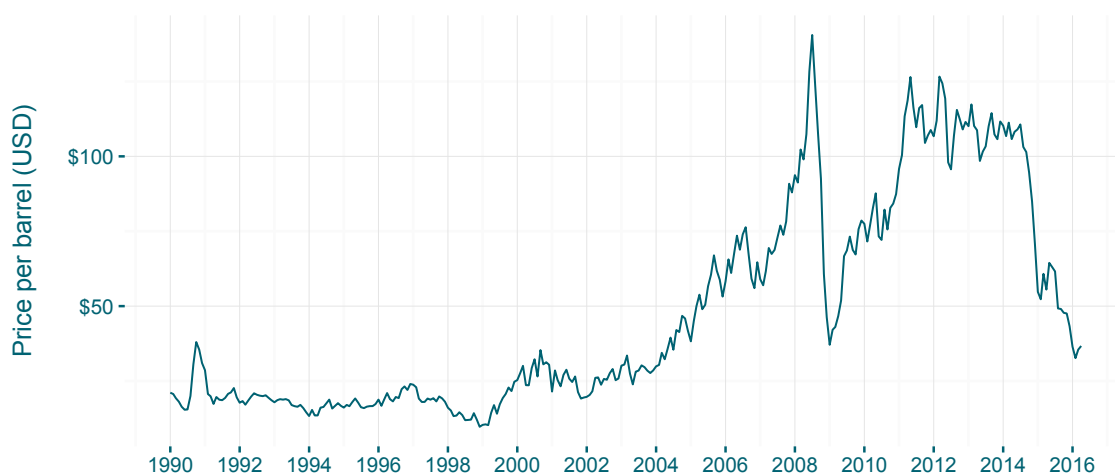
1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics New Zealand; 3. Derived from International Visitor Survey; 4. World Bank data (<http://data.worldbank.org/indicator>); 5. Compound annual growth rate(2015-2022).

Canada's economy is recovering but has been hit hard by plummeting oil prices that have reduced the value of many Canadian exports. This is expected to be offset partially by a more competitive currency and an expected increase in public investment in the next couple of years. Visitor growth from Canada was strong in 2015, at 7.2 per cent. We expect gradual 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.

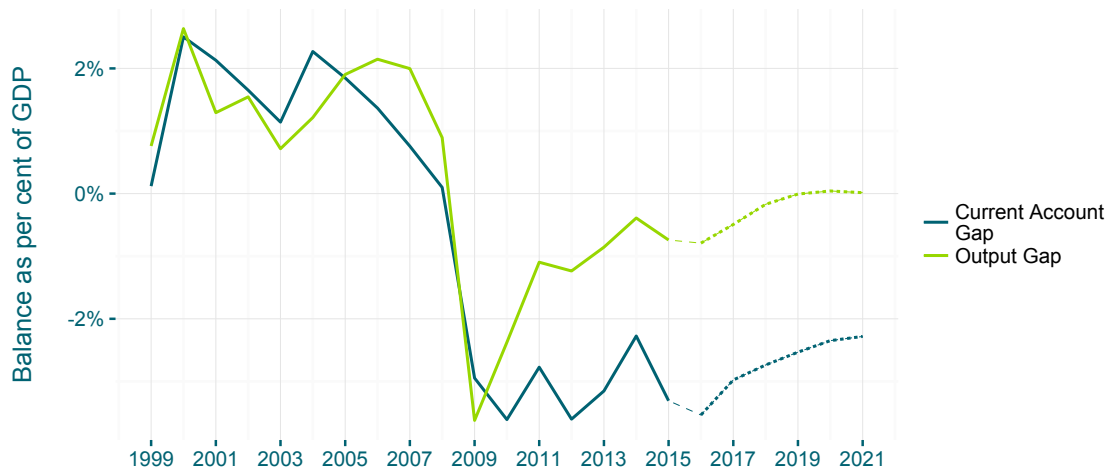
Figure 36: Oil prices plummeted and remained at a low level



Source: Datastream

- Canada benefits from the growth of the US economy, its main trading partner, 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 and maintained it at a low level, reducing the purchasing power of Canadian currency.

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



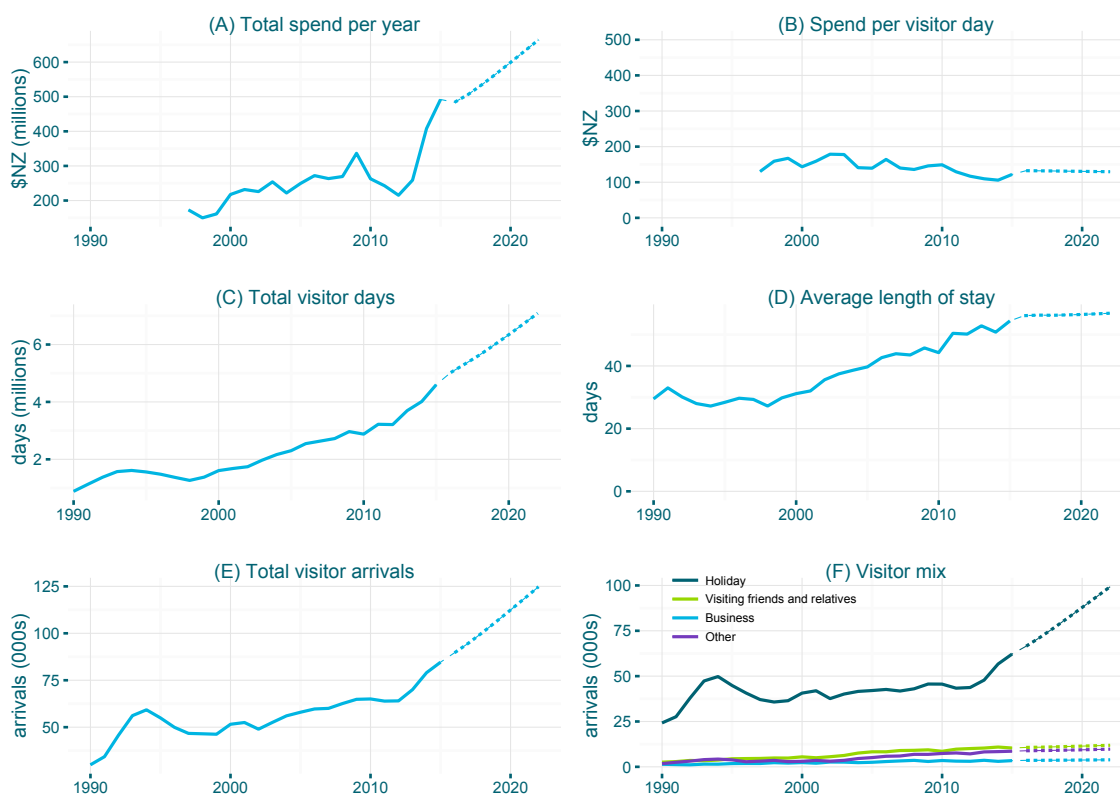
Source: World Economic Outlook, IMF

Germany



Summary	2015	2022	Visitor market characteristics ⁴	
Total spend (\$m) ¹	492	665	GDP per capita (PPP)	46,401
Total visitors (000s) ²	85	125	Population (millions)	81
Total days (000s) ²	4,600	7,090	Outbound departures (millions) ⁶	83
Spend per day (\$) ³	122	130	Outbound spend (USD mn)	93,252
Avg length of stay (days) ²	54	57		

Figure 38: Summary of forecasts: Germany



Year	2015	2016	2017	2018	2019	2020	2021	2022	GROWTH	
									Total	Annual ⁵
Total spend (\$m) ¹	492	484	507	536	567	599	632	665	35%	4.4%
Total visitors (000s) ²	85	90	95	100	106	112	119	125	48%	5.7%
Total days (000s) ²	4,600	5,023	5,328	5,639	5,986	6,342	6,714	7,090	54%	6.4%
Spend per day (\$) ³	122	132	132	132	131	131	130	130	6%	0.9%
Avg length of stay (days) ²	54	56	56	56	56	56	57	57	4%	0.6%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics New Zealand; 3. Derived from International Visitor Survey; 4. World Bank data (<http://data.worldbank.org/indicator>); 5. Compound annual growth rate(2015-2022); 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 20.6 per cent in 2015, driven by strong visitor growth (up 7.1 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 stay (at 54.4 days on average in 2015). 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

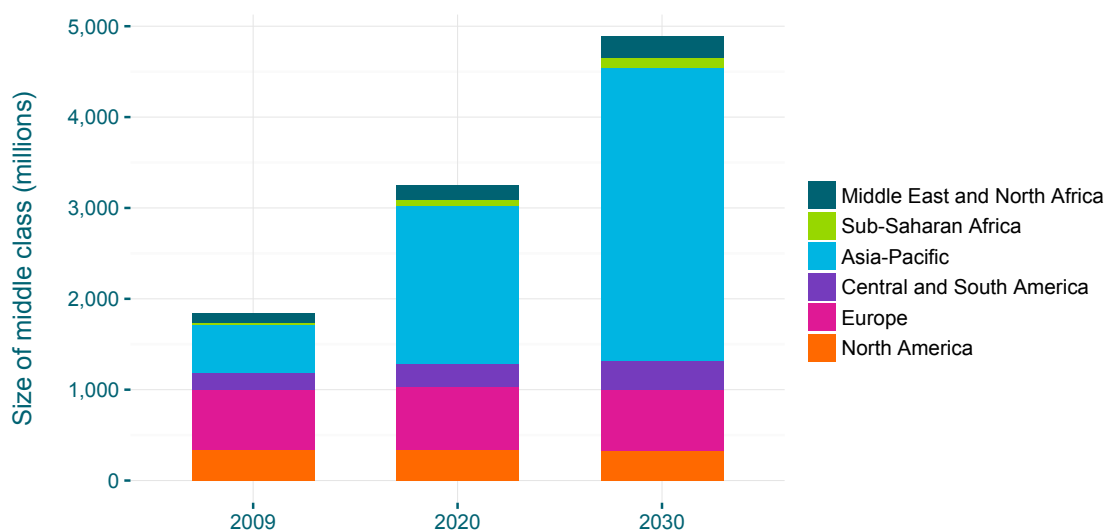
- Many Germans visit New Zealand on working holiday visas. This means that labour market conditions in Germany will impact on the number of German visitor arrivals in the medium term.
- The German economy has recovered from the GFC, although headline economic growth remains modest. The modest Euro area recovery is projected to continue in 2016 and 2017, supporting the German growth outlook.
- Household consumption and residential investment are relatively strong and expected to pick up across the rest of 2016 and into 2017. These factors are likely to keep the outlook for German visitor arrivals robust across the next two to three years.

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 Chinese market is changing New Zealand's tourism landscape, so preparing for other emerging markets to follow this trend is sensible. A range of emerging economies present opportunities for New Zealand, with India, Indonesia and South America the most promising.

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 39 showing the expected growth in middle-class population, particularly in the Asia-Pacific region).

Figure 39: 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 travels. Many of these travellers have a different profile to existing markets. For example, Indian visitors tend to arrive 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 in these markets 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, where they view there are 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.

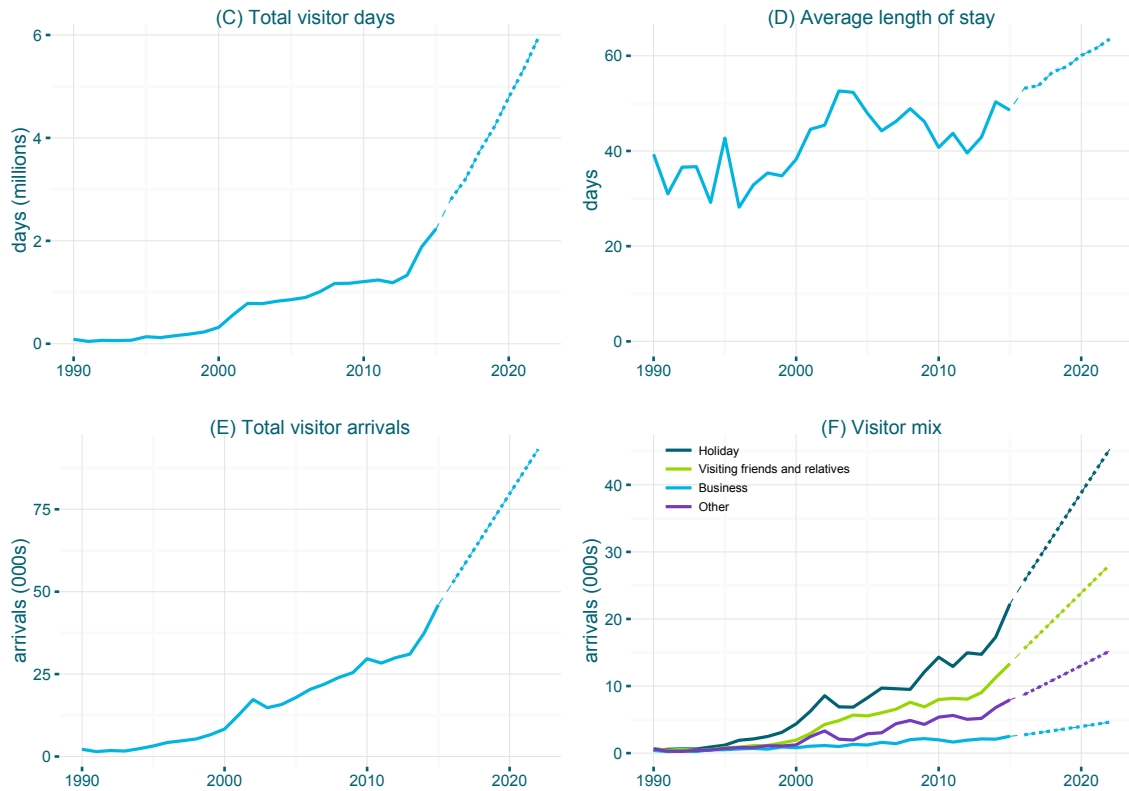
The following pages show arrivals forecasts for both the Indian and Indonesian markets, as well as context for the South American markets. We have not been able to produce spend forecasts for these markets as the sample sizes are not sufficiently large enough in the existing data. But we do know that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

5.1 India



Summary	2015	2022		Visitor market characteristics ⁴	
Total spend (\$m)	117	189	↑	GDP per capita (PPP)	5,701
Total visitors (000s) ²	46	93	↑	Population (millions)	1,295
Total days (000s) ²	2,236	5,922	↑	Outbound departures (millions)	18
				Outbound spend (USD mn)	14,596

Figure 40: Summary of forecasts: India



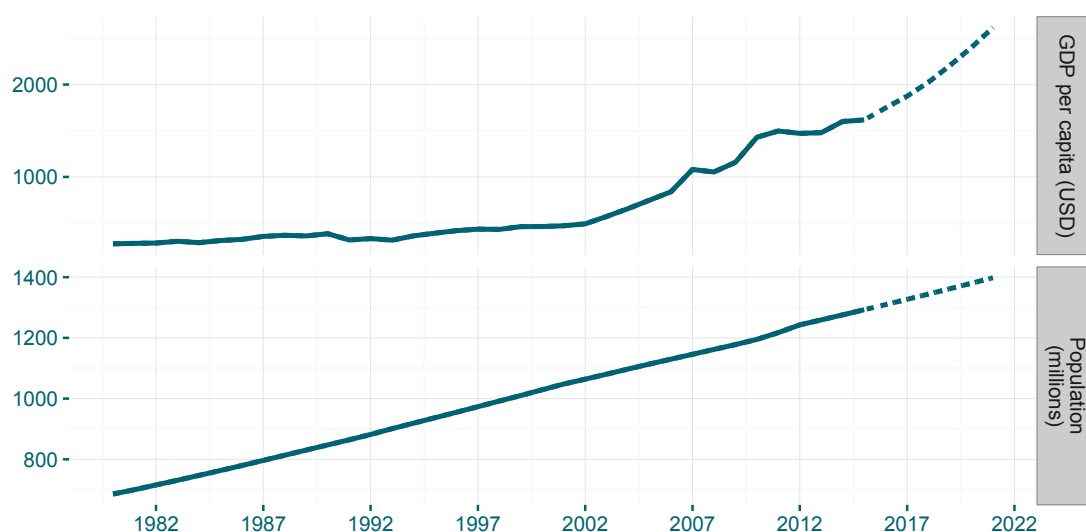
Year	GROWTH									
	2015	2016	2017	2018	2019	2020	2021	2022	Total	Annual ⁵
Total spend (\$m)	117	144	152	160	167	175	182	189	62%	7.1%
Total visitors (000s) ²	46	53	59	66	73	80	86	93	102%	10.6%
Total days (000s) ²	2,236	2,802	3,192	3,745	4,211	4,787	5,316	5,922	165%	14.9%

2. International Travel & Migration data, Statistics New Zealand; 4. World Bank data (<http://data.worldbank.org/indicator>); 5. Compound annual growth rate(2015-2022).

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 2022 as forecast by the United Nations, and incomes are growing (see Figure 41). 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.

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 2015. 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 Immigration New Zealand.

Figure 41: India's population is growing as well as its GDP per capita, driving more outbound travel



Source: IMF World Economic Outlook

■ 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.

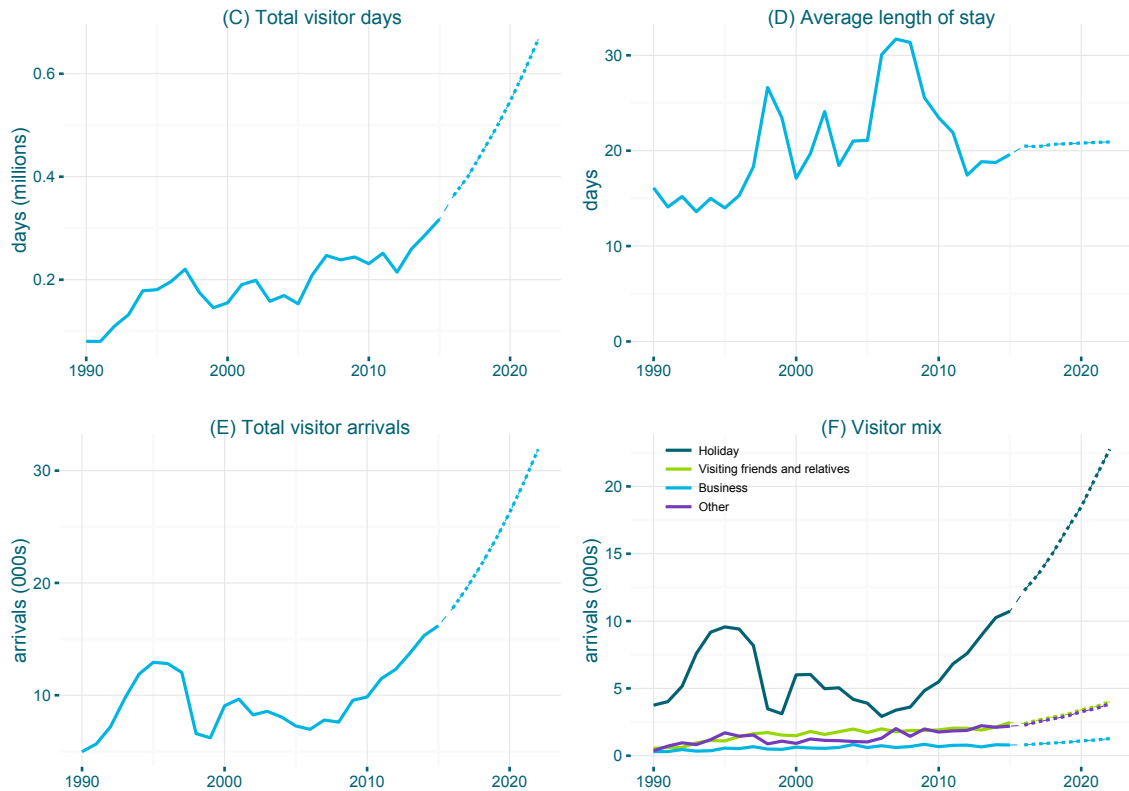
Although challenges are ahead, the outlook is positive. India's infrastructure is under pressure with a huge welfare gap between the richest and the poorest in society. However, the IMF is still picking the economic growth rate in India to surpass that of China, but we expect it will be a long time before that translates into growth of the same magnitude for New Zealand tourism.

5.2 Indonesia



Summary	2015	2022		Visitor market characteristics ⁴	
Total spend (\$m)	38	63	↑	GDP per capita (PPP)	10,517
Total visitors (000s) ²	16	32	↑	Population (millions)	254
Total days (000s) ²	317	667	↑	Outbound departures (millions)	9
				Outbound spend (USD mn)	7,682

Figure 42: Summary of forecasts: Indonesia



Year	GROWTH								Total	Annual ⁵
	2015	2016	2017	2018	2019	2020	2021	2022		
Total spend (\$m)	38	37	40	44	48	52	57	63	66%	7.5%
Total visitors (000s) ²	16	18	20	22	24	26	29	32	97%	10.2%
Total days (000s) ²	317	363	400	446	494	546	604	667	110%	11.2%

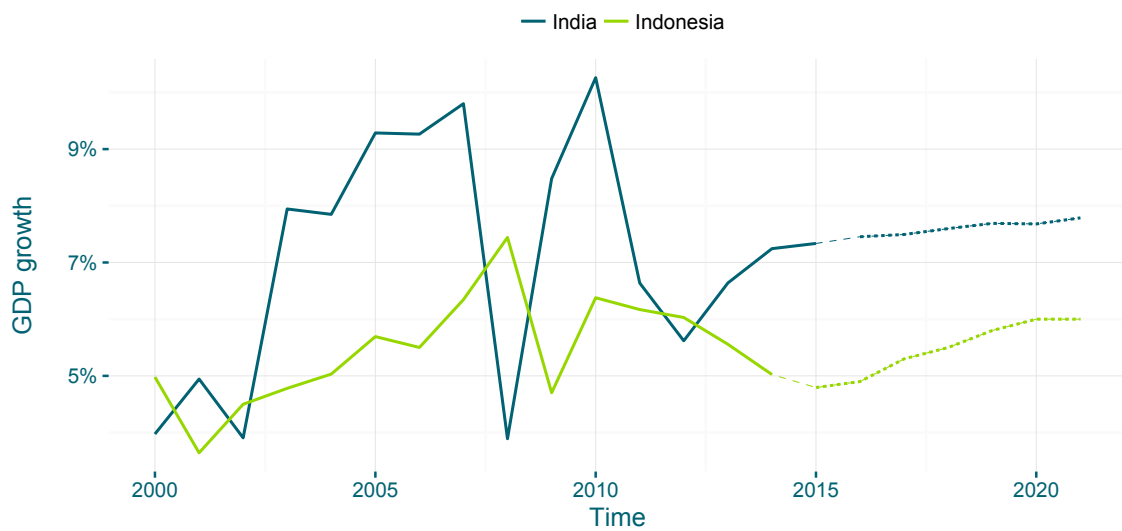
2. International Travel & Migration data, Statistics New Zealand; 4. World Bank data (<http://data.worldbank.org/indicator>); 5. Compound annual growth rate(2015-2022).

Like India, Indonesia has a sizeable and growing population. Over time, Indonesia's middle class will expand and, similar to 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, total visitor numbers have grown by 70 per cent in the last seven 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 43).

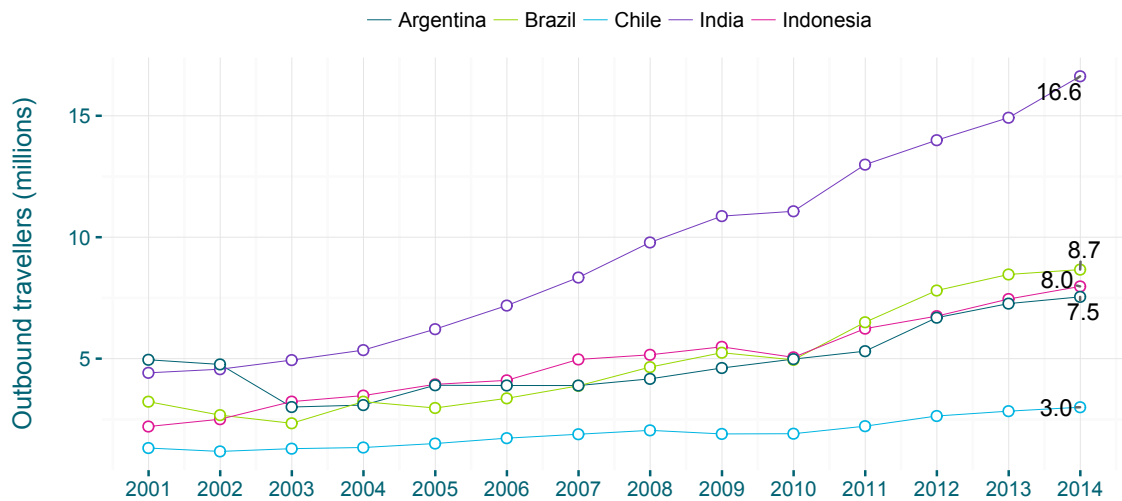
Figure 43: GDP is expected to grow for both India and Indonesia



Source: World Economic Outlook, IMF

Like elsewhere, robust growth has boosted outbound tourism in Indonesia. Figure 44 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 low commodity price and 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 44: Indonesia's outbound numbers sit alongside other key emerging markets

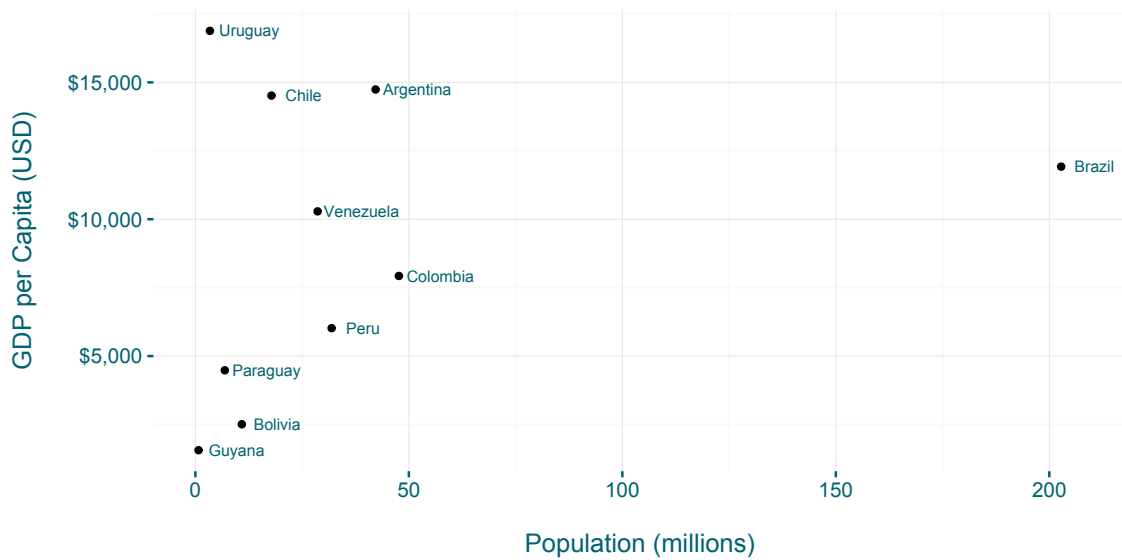


Source: World Bank

5.3 South America

The 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 solidifies 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 45 shows population against GDP per capita for a range of South American countries.

Figure 45: Brazil has a large population with relatively high incomes per capita



Source: Population and GDP per capita, IMF

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.

6. 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, Airways, Auckland Airport, Tourism Industry Association and Tourism New Zealand and is chaired by MBIE.

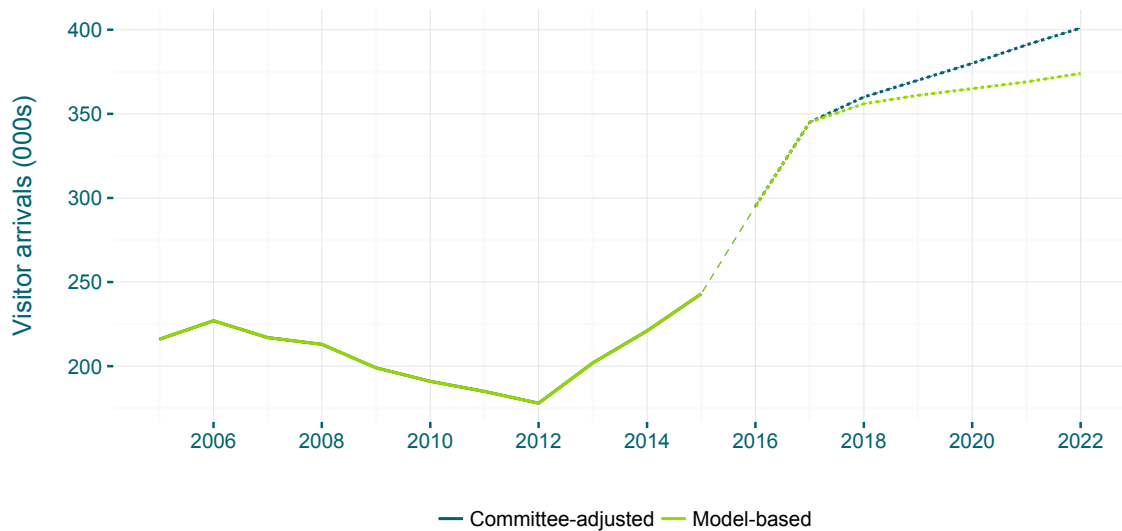
This year, the committee recommended three separate changes to the forecasts:

1. The rate of visitor growth for the US is lifted up to a 7.4 per cent compound annual growth rate.
2. The visitor number from the UK in 2017 is lifted up to reflect events such the 2017 Lions Tour and the Masters Games.
3. The rate of visitor growth for Indonesia is lifted up to a 10.2 per cent compound annual growth rate.

6.1 Adjustment to the US forecast

The committee opted to lift up the model's forecasts for growth from a compound annual growth rate of 6.4 per cent to 2022 to growth of 7.4 per cent to 2022 (see Figure 46). This outlook is more consistent with the planned increase in airline capacity between the US and New Zealand in the next 18 months, the ongoing recovery of the US economy and a strong US dollar.

Figure 46: Committee-adjusted and model-based visitor arrival forecasts for the US



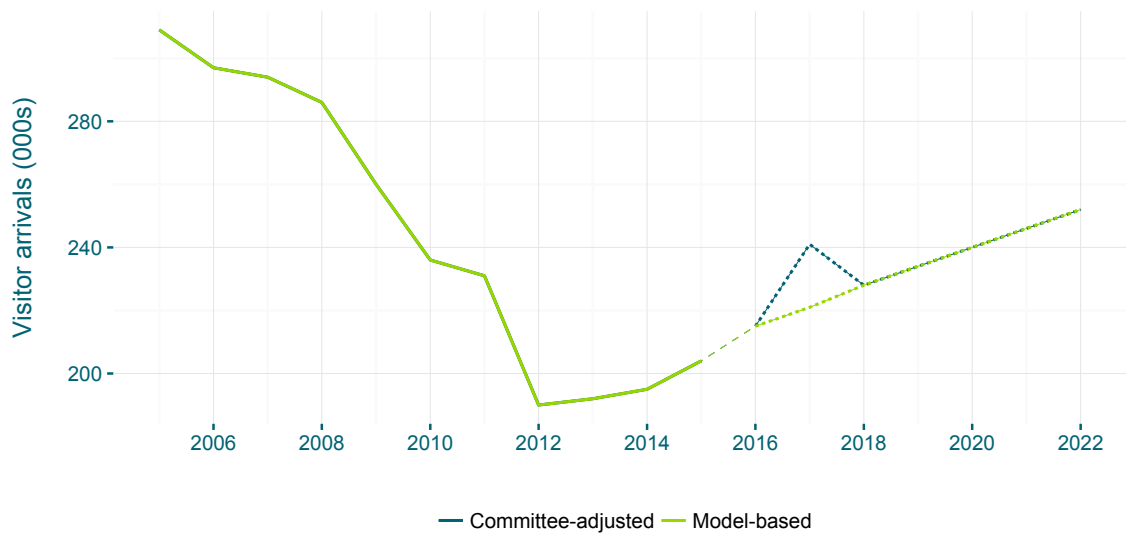
US visitor arrivals (000s) Forecasts									GROWTH	
	2015	2016	2017	2018	2019	2020	2021	2022	Total	Annual
Committee-adjusted	243	295	345	360	370	380	391	401	65.0%	7.4%
Model-based	243	295	345	356	361	365	369	374	53.9%	6.4%

Source: MBIE

6.2 Adjustment to the UK forecast

The committee also adjusted up the visitor number in 2017 due to events such as the 2017 Lions Tour and the Masters Games. The committee used the increased number in 2011 using the Rugby World Cup as a benchmark.

Figure 47: Committee-adjusted and model-based visitor arrival forecasts for the UK



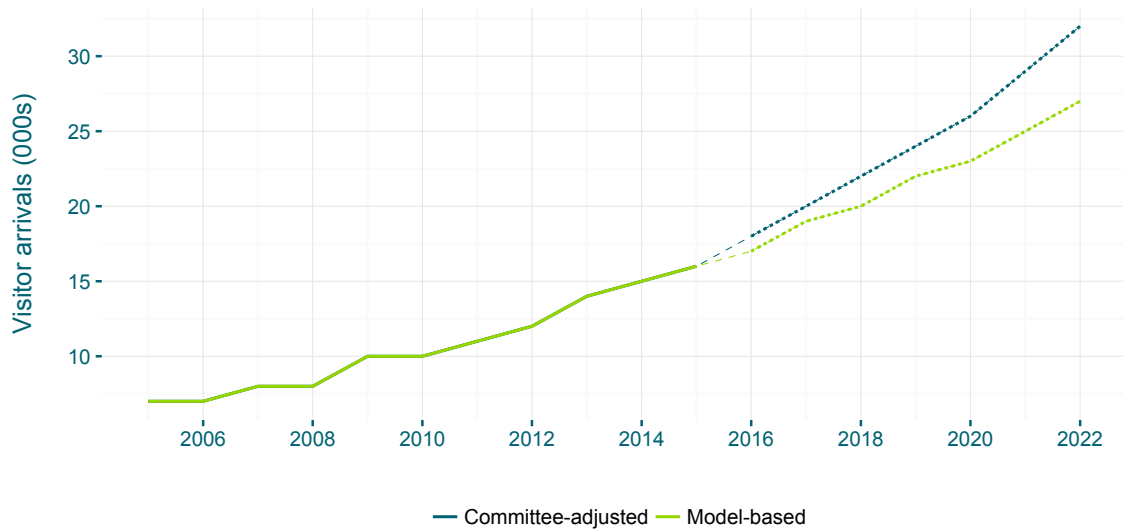
UK visitor arrivals (000s)									GROWTH	
	2015	2016	2017	2018	2019	2020	2021	2022	Total	Annual
Committee-adjusted	204	215	241	228	234	240	246	252	23.5%	3.1%
Model-based	204	215	221	228	234	240	246	252	23.5%	3.1%

Source: MBIE

6.3 Adjustment to Indonesia forecast

The committee opted to adjust up the track for visitor arrival growth from Indonesia from 7.8 per cent over the forecast period to growth of 10.2 per cent, compound annual growth rate (see Figure 48). The committee formed the view that the original forecasts predicted via the model for Indonesia were too pessimistic, given it is still a maturing market with good economic growth perspective and an increasing middle-class population.

Figure 48: Committee-adjusted and model-based visitor arrival forecasts for Indonesia



Indonesia visitor arrivals (000s)									GROWTH	
	2015	2016	2017	2018	2019	2020	2021	2022	Total	Annual
Committee-adjusted	16	18	20	22	24	26	29	32	100.0%	10.4%
Model-based	16	17	19	20	22	23	25	27	68.8%	7.8%

Source: MBIE

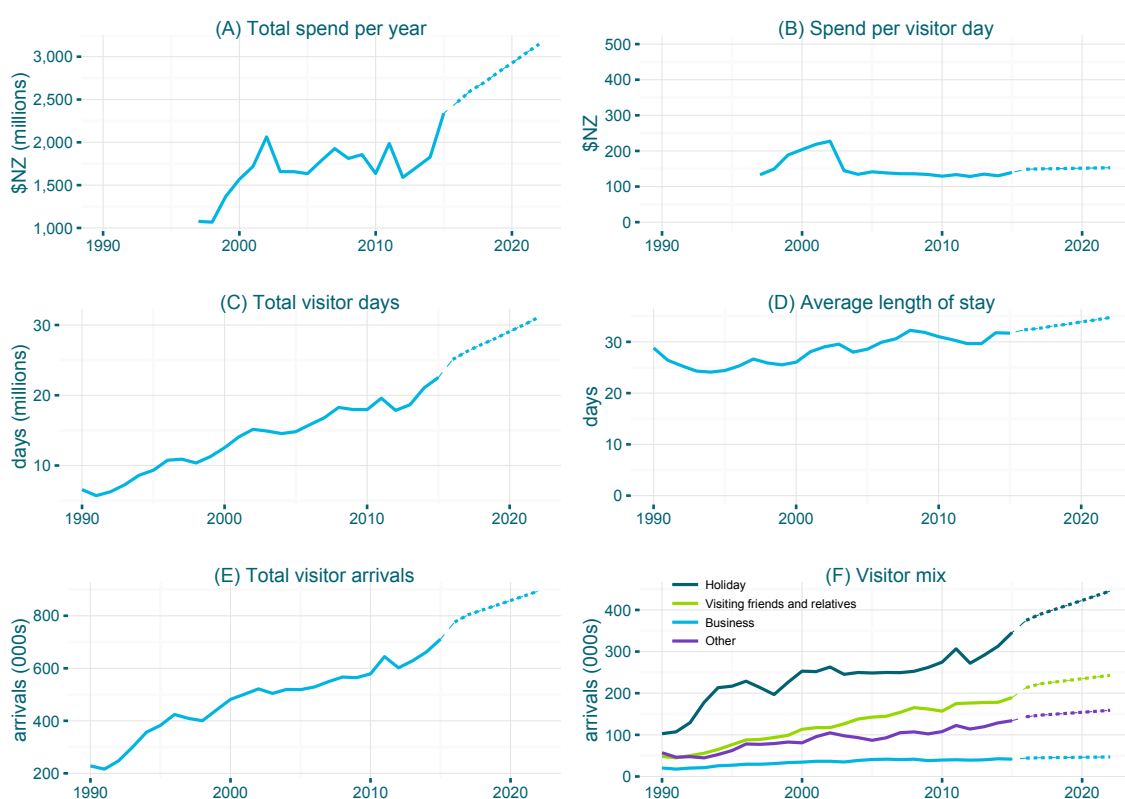
A. Forecasts for other markets

24%

Share of all
spend in NZ

Summary	2015	2022	
Total spend (\$m) ¹	2,339	3,147	↑
Total visitors (000s) ²	711	894	↑
Total days (000s) ²	22,528	31,060	↑
Spend per day (\$) ³	140	153	↑
Avg length of stay (days) ²	32	35	↑

Figure 49: Summary of forecasts: Other



Year	2015	2016	2017	2018	2019	2020	2021	2022	GROWTH	
									Total	Annual ⁵
Total spend (\$m) ¹	2,339	2,469	2,607	2,702	2,820	2,925	3,038	3,147	35%	4.3%
Total visitors (000s) ²	711	776	804	822	840	858	876	894	26%	3.3%
Total days (000s) ²	22,528	25,086	26,232	27,203	28,086	29,077	30,027	31,060	38%	4.7%
Spend per day (\$) ³	140	148	150	150	151	151	152	153	9%	1.3%
Avg length of stay (days) ²	32	32	33	33	33	34	34	35	10%	1.3%

1. International Visitor Survey, MBIE; 2. International Travel & Migration data, Statistics New Zealand; 3. Derived from International Visitor Survey; 5. Compound annual growth rate(2015-2022).

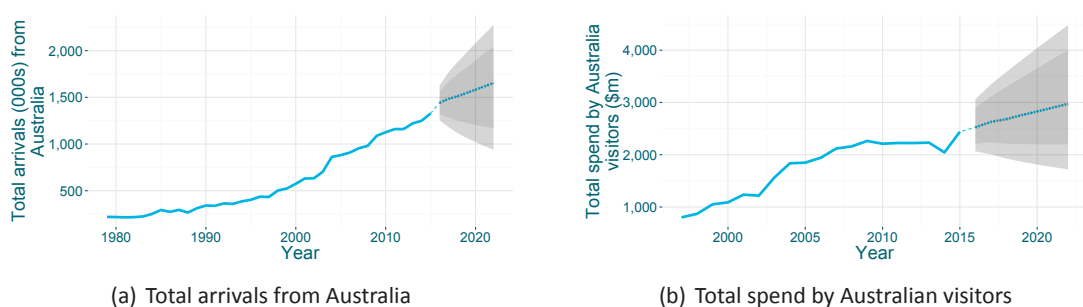
B. Examples of uncertainty in the forecast results

This section shows some of the uncertainty behind the published forecast results.

Any forecast will involve uncertainty; MBIE's tourism forecasts are no exception. The published results only show a set of point estimates, which can be thought of as weighted-average values of possible outcomes from our forecast models. There could be a wide range of uncertainty for those point estimates.

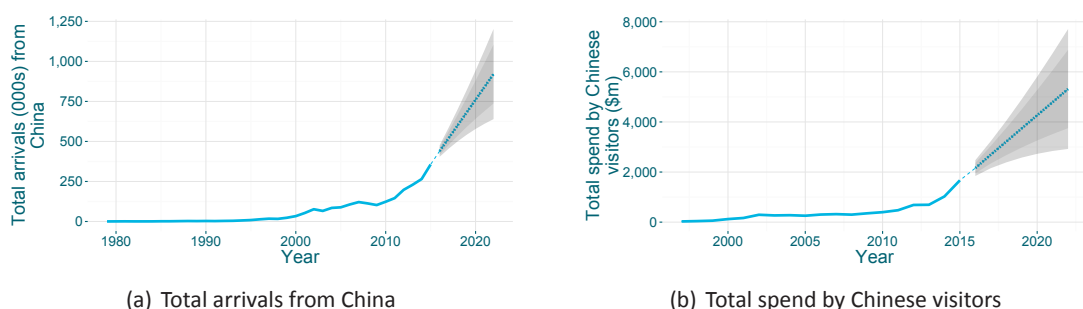
Figures 50 and 51 illustrate the uncertainty in the forecasts. They display the prediction intervals at an 80 per cent (darker grey region) and 95 per cent confidence level respectively, for the total arrival and spend by both Australian and Chinese visitors. A 95 per cent confidence level would mean that there is a 95 per cent chance that a future value will fall in the grey area. For example, there is a 95 per cent chance that total spend by Chinese visitors in 2022 can be any number ranging between around \$3.0 billion to \$8.0 billion.

Figure 50: Prediction intervals of total arrivals and spending of Australian visitors



Source: Statistics New Zealand, MBIE

Figure 51: Prediction intervals of total arrivals and spending of Chinese visitors



Source: Statistics New Zealand, MBIE