



2013 Western market visitor growth

What explains the increase in advanced-economy visitors?

NZIER report to Tourism New Zealand, March 2014

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Key points

There has been stellar growth in visitors from Western markets

- New Zealand experienced strong growth in visitor arrivals from traditional Western markets across 2013 led by once-in-a-generation US growth.
- The US total visitor market surged 13.4 percent – much higher than expected – fuelled by holidaymaker growth of over 21 percent in 2013.

Economic factors matter...

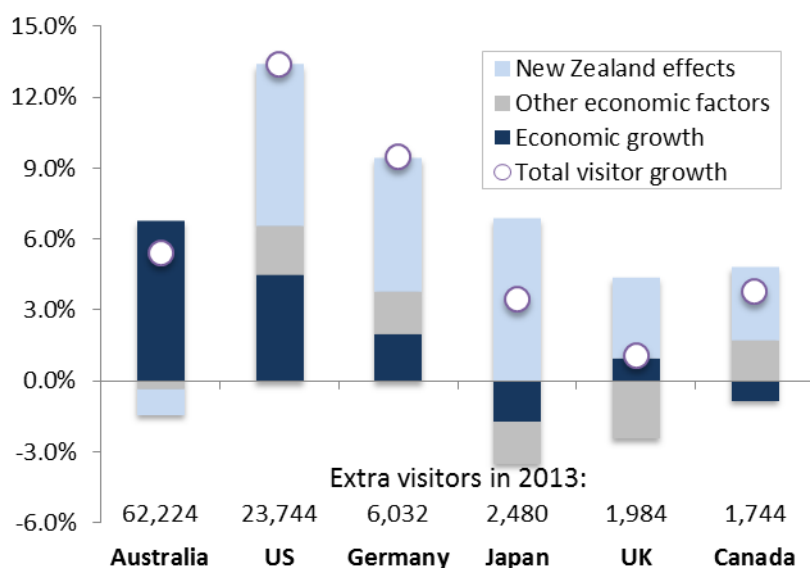
- The recovery in visitors has coincided with better economic conditions following the GFC.
- There are also other economic factors at play including the high Kiwi dollar that dampens visitor growth and generally positive changes in air capacity.

...but New Zealand specific factors have been key

- But economic growth alone cannot explain the rise in visitor numbers. There are additional New Zealand specific effects such as:
 - marketing campaigns that last year included middle-earth themes
 - increased competition in key markets such as the US
 - expanding cruise capacity over a number of years.
- Our analysis shows that New Zealand specific factors played a large role in the recovery in visitor numbers across most markets (Figure 1). Partial indicators suggest marketing effectiveness was the key driver.

Figure 1 New Zealand specific factors boosted 2013 visitor growth

Components of annual visitor arrivals growth, 2013



Source: NZIER (Other economic factors include air capacity and bilateral exchange rates)

Market-by-market

Australia

- The Australian market is at odds with other advanced economies. But this may be because of traditional ties that make New Zealand more like a domestic rather than international tourism market.
- Visitor growth was a healthy 5.4 percent but Australia's total outbound leaped 6.8 percent – New Zealand specific factors were net negative for total outbound but positive for holidaymakers.
- A high kiwi dollar and some reduction in air capacity are weighing on visitor numbers.

United States

- 13.4 percent growth in the US market brought 23,744 extra visitors in 2013.
- Global outbound tourism from the US was only modest – 1.8 percent.
- So New Zealand visitor growth from the US is unlikely to be solely driven by a lifting US economy and wealth effects from rising asset prices.
- Analysis of partial indicators suggests that marketing effectiveness has likely been a key driver of visitor growth that cannot be attributed to global growth, air capacity or chance.

Germany

- Visitors from Germany lifted 9.5 percent in 2013 after a flat 2012.
- The economy expanded by 2 percent and the exchange rate improved.
- New Zealand specific factors contributed to two-thirds of the improvement.
- Marketing effectiveness is again likely to be the primary driver.

Japan

- Japan posted solid visitor growth in 2013 with visitor numbers lifting 3.4 percent.
- The economy grew 2 percent but long-haul outbound fell while air capacity restricted growth and the yen depreciated sharply against the Kiwi.
- New Zealand specific factors lifted performance relative to Australia.

United Kingdom

- The UK market grew 1.1 percent following declining visitor arrivals.
- This growth is low, but was better than expected given a slow economy, weak Sterling, and Air Passenger Duty increasing travel costs.
- New Zealand specific factors such as marketing and product offerings boosted visitor growth.

Canada

- The Canadian market climbed 3.8 percent in 2013 despite the economy contracting through 2013.
- The exchange rate moderated a little. Growth in air capacity was net positive.
- New Zealand specific factors did most of the heavy lifting. Like other markets, marketing effectiveness played a leading role.

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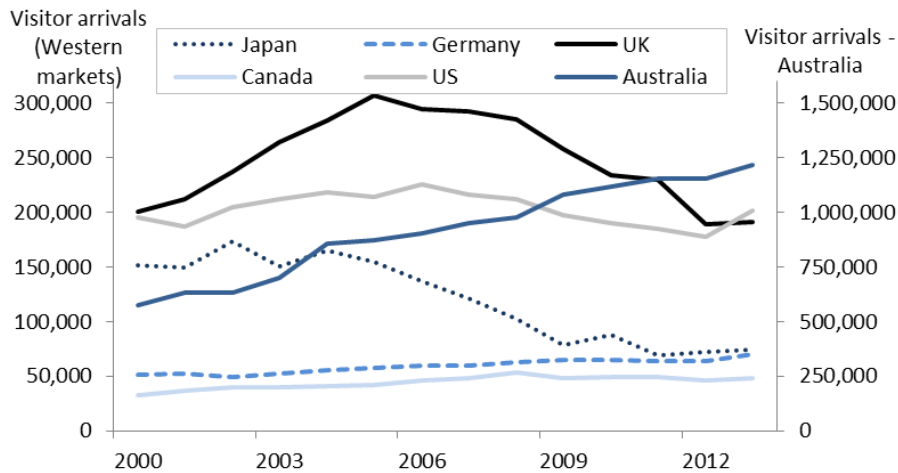
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1. Visitor growth soars in 2013

International arrivals to New Zealand in 2013 grew at the fastest pace in a decade. Visitor arrivals were up 6.1% boosted by a rebound across several advanced economies (see Figure 2) and good performance by emerging markets like China.

Figure 2 Advanced-economy visitors grow strongly in 2013

Total visitor arrivals

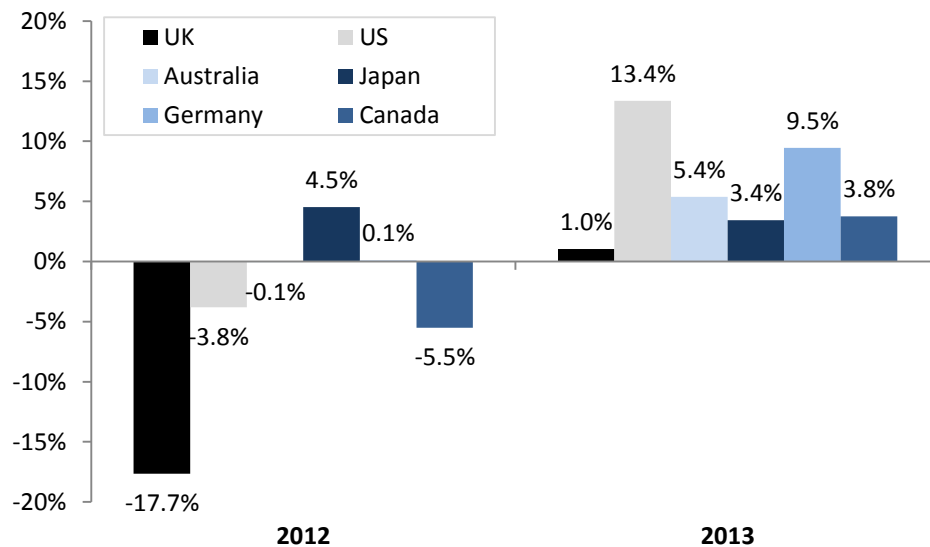


Source: Statistics New Zealand

Figure 3 shows visitor growth in 2013 soared, after a weak 2012. To understand the drivers of this growth we analyse possible growth drivers.

Figure 3 Advanced-economy visitor arrivals accelerated in 2013

Annual growth in total visitor arrivals, 2012 and 2013 (%)



Source: Statistics New Zealand

2. Drivers of growth

Our goal is to identify drivers of visitor growth in 2013. We use a mixed approach:

1. Apply the growth rate in total outbound visitors for each market to New Zealand, attributing total outbound growth to *economic growth factors*.
2. Use simple regressions that include the exchange rate, air capacity and one-off factors, such as the impact of September 11, 2001, to find the contribution of *other economic factors*.¹
3. Reconcile total visitor growth, and contributions from economic growth and other economic factors with *New Zealand specific factors*.
4. Analyse a range of indicators to determine the most likely drivers of New Zealand specific factors from competing propositions.

2.1. Economic factors

Economic growth

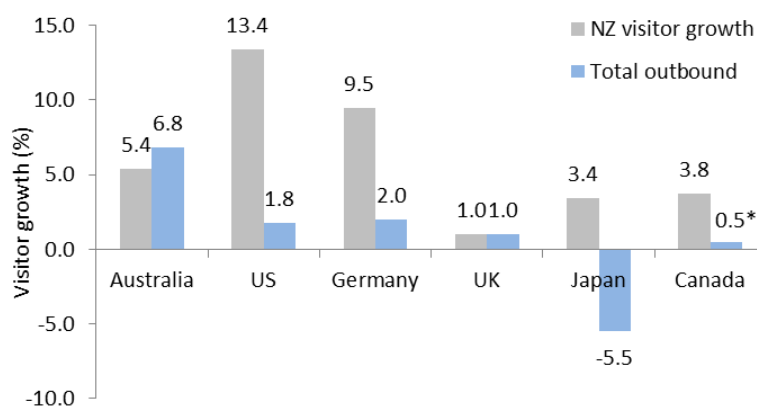
The rebound in visitors from advanced economies was better than expected.

Many of these economies are recovering from a long and deep recession after the Global Financial Crisis (GFC). Consumers froze spending and paid down debt, but spending is finally thawing. Countries are recovering from the GFC at different speeds.

But across key markets visitor growth to New Zealand outstrips total outbound from most markets (see Figure 4). For example, the growth in total US outbound travel was only 1.8%, compared to the 13.4% growth of US visitors to New Zealand.

Figure 4 New Zealand visitor growth higher than total outbound

2013 annual visitor growth: to New Zealand and to all destinations



Source: Australian Bureau of Statistics, US Office of Travel and Tourism Industries, Forbes, Office of National Statistics, Japan Tourism Marketing Company, Statistics Canada

¹ See Table 1 in the appendix for a summary of the data we use.

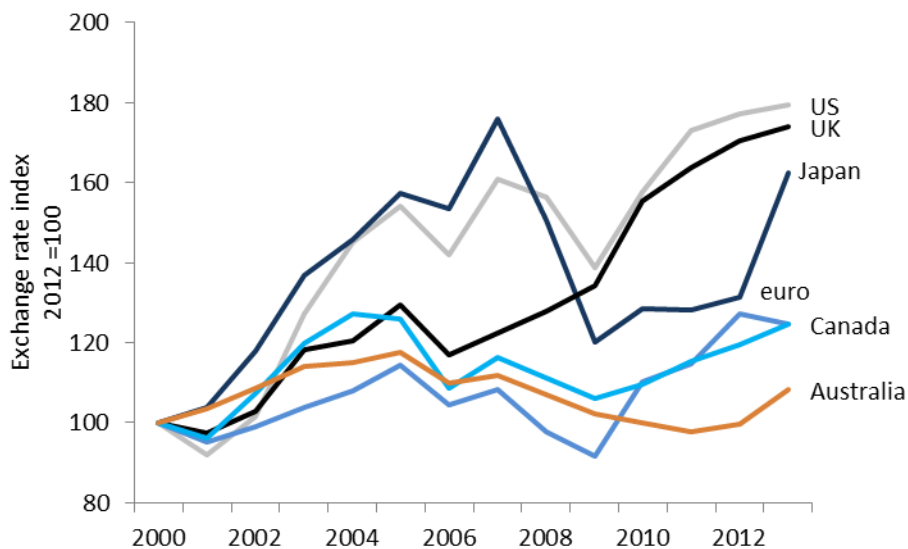
For holidaymakers these differences are more extreme – US holidaymakers to New Zealand grew over 21% in 2013.

Exchange rate

Most advanced economies have weak exchange rates compared to New Zealand. This makes New Zealand a more expensive destination. The yen in particular has been weak in 2013 because of a massive monetary stimulus programme (Figure 5).

Figure 5 Exchange rate providing headwinds for advanced economies, particularly Japan

NZD exchange rate, index, 2012=100



Source: Reserve Bank of New Zealand

Air capacity

Moreover, changes in direct air capacity are also likely to impact on visitor growth in the near-term. For example, the entry of Hawaiian airlines on the Honolulu-Auckland route in March 2013 expanded capacity and Air New Zealand has put on additional flights. Other markets are also experiencing some smaller changes in capacity.

2.2. New Zealand specific factors

We model the historical role of economic factors in explaining visitor growth using simple regressions. We also include dummy variables to capture specific events such as September 11, 2001. We find that economic factors matter but cannot explain all of the growth in visitor arrivals. There are special New Zealand specific factors.

There are at least three propositions that explain what has been special about New Zealand that has lifted visitor growth and in particular US growth so markedly:

- Hobbit related marketing (appears most likely)
- Increased flight capacity (but the impact appears modest)
- Increased cruise capacity (the number of voyages has been ramping up).

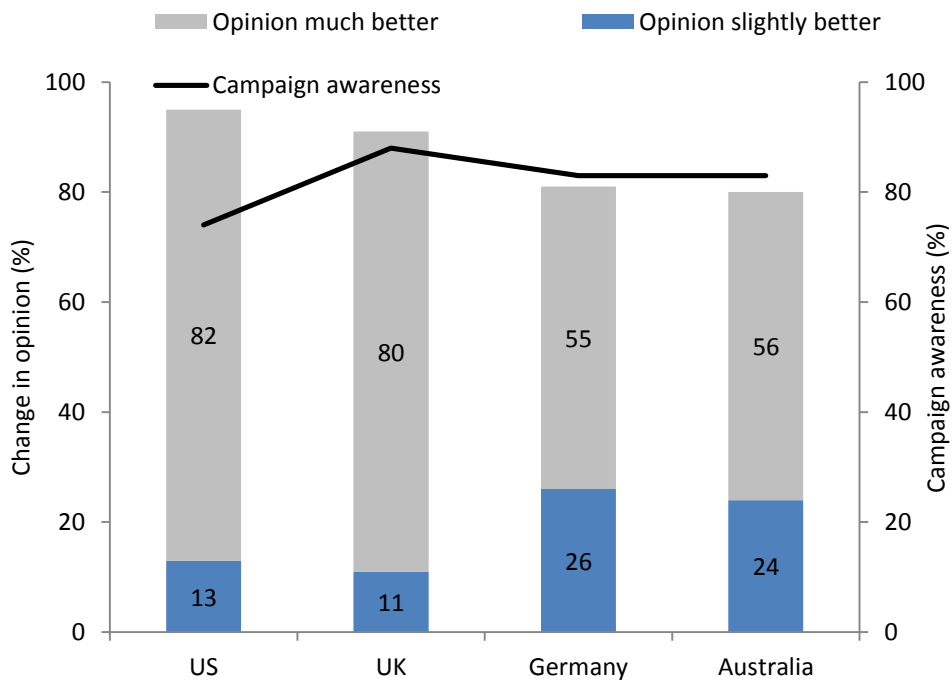
We use a range of indicators to assess the likelihood of these propositions.

Proposition 1: Hobbit related marketing

The middle-earth or Hobbit campaign may have increased visitors from advanced economies. Figure 6 Middle-earth campaign effectiveness matches lift in advanced-economy visitors shows that the middle-earth campaign was a factor in improving “active considerers” awareness of New Zealand. Campaign penetration was highest in the UK but the campaign raised the ‘opinion of New Zealand’ the most in the US.

Figure 6 Middle-earth campaign effectiveness matches lift in advanced-economy visitors

Campaign awareness measures ‘Active Considerers’ aware of the campaign, bars reveal change in opinion of New Zealand as a destination

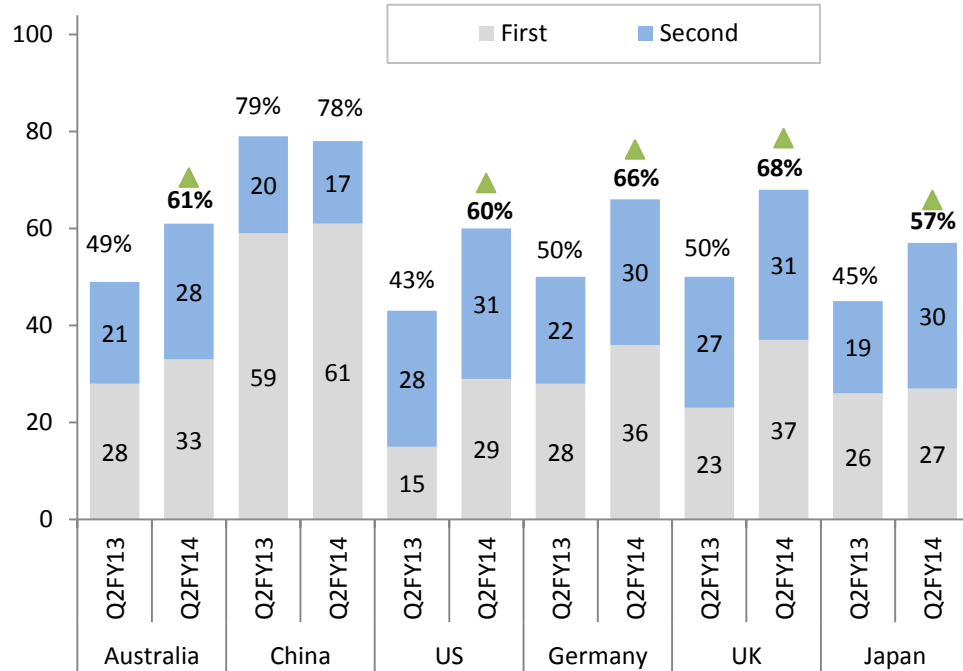


Source: Tourism New Zealand

Figure 7 shows that campaign penetration translated into a jump in preference for New Zealand over other markets from advanced economies. Preference was significantly higher for Australia, the US, Germany, the UK and Japan at the end of 2013 than at the end of 2012.

Figure 7 Preference for New Zealand jumped higher in 2013

New Zealand preference score across market (%): Q2FY13 vs Q2FY14



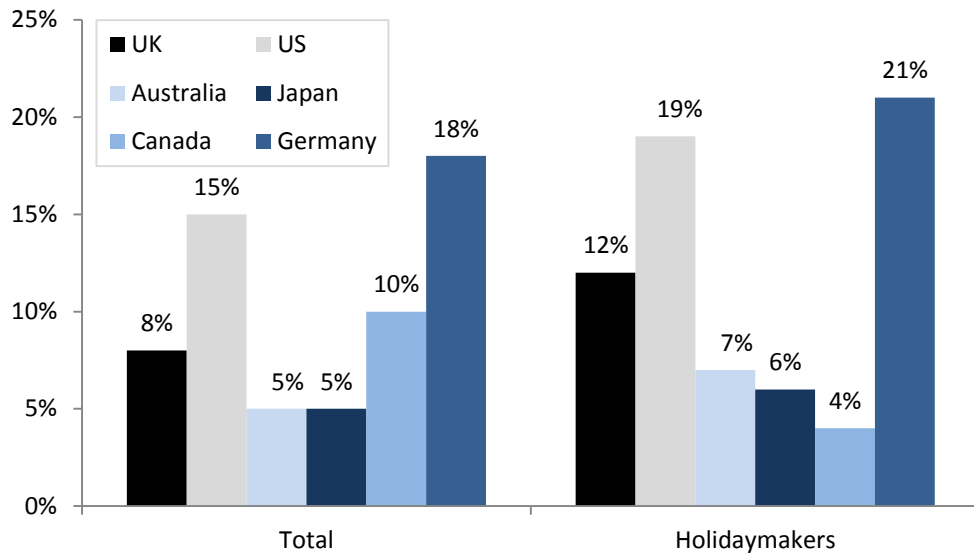
Source: Tourism New Zealand

Figure 8 shows that campaign effectiveness translated to visitors self-describing the “The Hobbit” as a factor that influenced their decision to visit New Zealand. Again, the US, the UK and Germany feature prominently.

Visitors from the UK spend more in New Zealand than in any other destination making New Zealand a premium destination. If the middle-earth campaign resonates more with premium consumers then we would expect to see a higher fraction of UK holidaymakers reporting being enamoured with the middle-earth campaign even though total holidaymakers might only grow modestly.

Figure 8 "Hobbit" response means UK and US holidaymakers should lead visitor resurgence

Was "The Hobbit" a factor in consideration of visiting NZ? Response Q4 2013

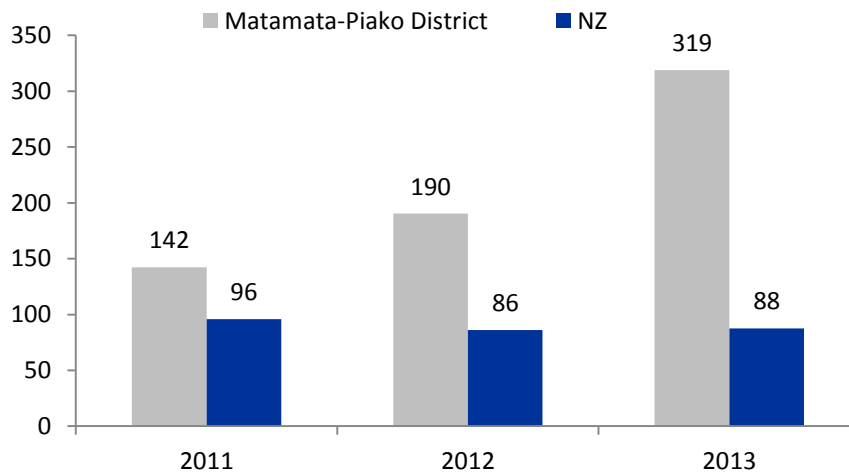


Source: MBIE, International Visitor Survey

In the absence of other indicators, it would be tempting to dismiss these self-reported surveys as overstating the impact of the Hobbit. But Figure 9 shows realised middle-earth product – the growth in demand for the Hobbiton movie set tours – has increased visitors to Matamata. This connects a chain of indicators from stimulating travel consideration to on the ground demand.²

Figure 9 Matamata shows realised middle-earth campaign demand

Average index of activity Regional Tourism Indicators, yearly average



Source: MBIE, Regional Tourism Indicators

² Moreover, Hobbiton movie set tours is a popular attraction on newzealand.com receiving over 75,000 visits and 17,500 referrals in the last 12 months, supporting the connection between middle-earth campaign and observed demand

Proposition 2: Increased airline capacity

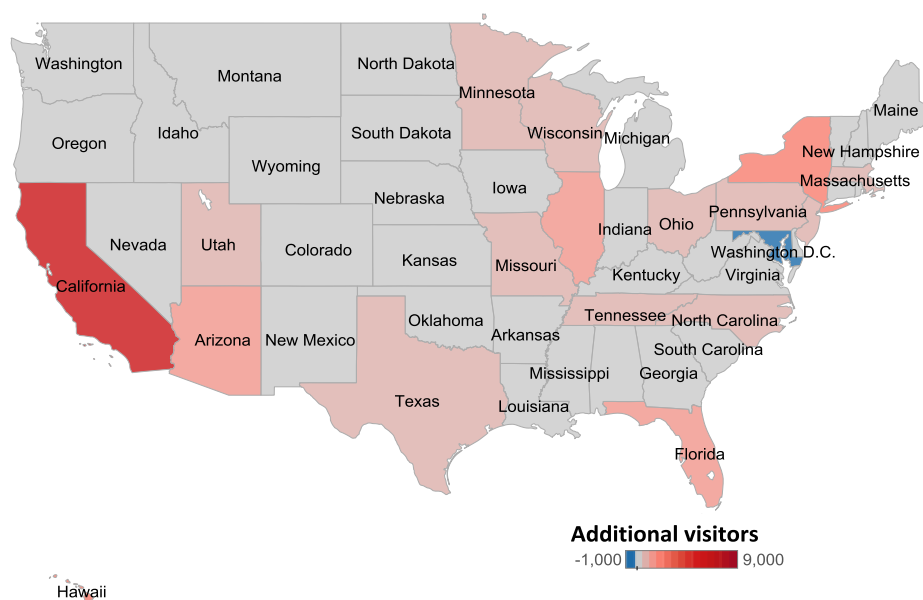
The entry of Hawaiian airlines on the Honolulu-Auckland route in March 2013 expanded direct services from North America in addition to the extra capacity provided by Air New Zealand in 2013.³

Extra capacity could stimulate visitor growth by reducing the time cost for some travellers by providing more direct connections. This may have induced higher visitor growth after Qantas exited the NZ-US market in May 2012.

But it is difficult to attribute much growth to Hawaiian airlines. California and Florida provided the most additional visitors in 2013 (see Figure 10). Moreover, both January and February posted very strong growth *before* the entry of Hawaiian airlines.

Figure 10 California and Florida main source of additional visitors

Location by state of growth in number of visitors 2012 to 2013



Source: Statistics New Zealand

Prices have been competitive on the US route. Changes in prices may have had an impact on demand but disentangling the impact is fraught with the change in market dynamics and is unlikely to be the complete story.⁴

Proposition 3: Increased cruise capacity

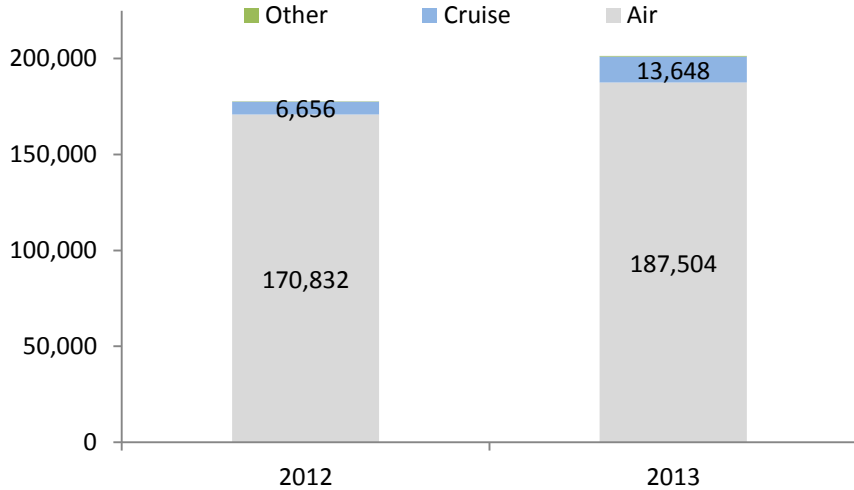
Strong growth in cruise capacity may have driven visitor growth from the US. Figure 11 shows that more visitors from the US opted for cruise travel in 2013. Cruise visitors comprise 29% of the increase in total arrivals in 2013.

³ Air New Zealand increased capacity on North American routes by 9.65 percent in 2013.

⁴ For example, airfares from the US to Asia fell 0.8 percent but visitation to the region only increased 0.3 percent – much lower than the total increase in outbound of 1.8 percent. Additional price data is required to determine the price elasticity on the New Zealand-US route.

Figure 11 Cruise visitors make up 29% of US visitor growth

US visitor by travel mode



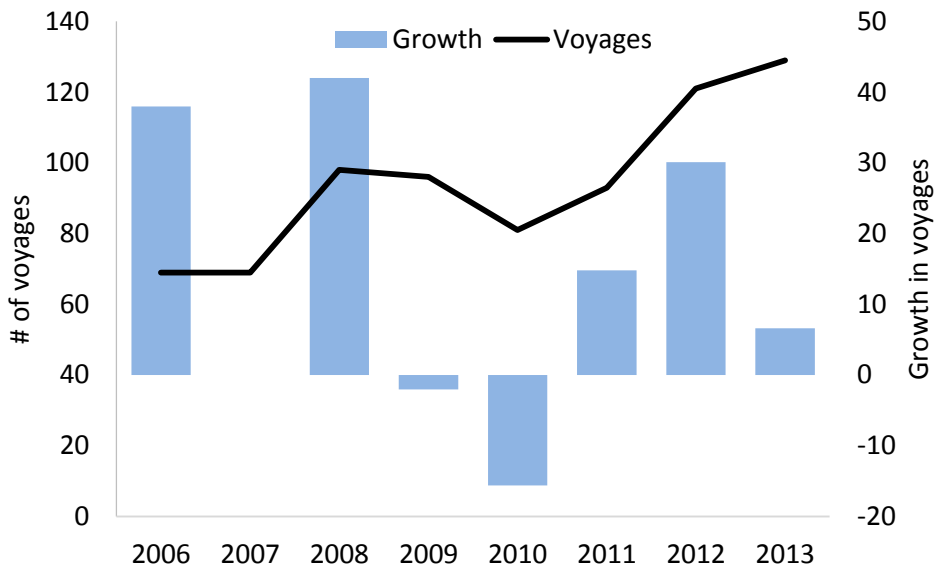
Source: MBIE, International Visitor Survey

Capacity constraints that crimp growth in cruise that originates in Sydney will have played a role. This summer, there were more ships turning around in Auckland. But this cannot explain the entirety of the lift in growth across key markets.

While cruise capacity contributed to the growth in visitor numbers, it is only a partial driver. Cruise capacity, the number of voyages, has been increasing for several years, but we didn't experience strong visitor growth in earlier periods (see Figure 12).

Figure 12 Expect an earlier lift in US visitors if cruise plays key role

Number of New Zealand based cruise voyages



Source: MBIE, International Visitor Survey

All three propositions – middle-earth marketing, increased airline competition and increased cruise capacity – are likely to have played some role. But the range of

information we have squares more clearly with the efficacy of marketing bringing many more advanced economy visitors to New Zealand in 2013. These include:

- Campaign effectiveness analysis (see Figure 6 and Figure 7)
- Visitor survey measures (see Figure 8)
- Demonstrated on the ground demand (see Figure 9)
- Timing of visitor growth
- Broad market profile that registered increased growth.

To better understand the influence of each factor within each market we take a market-by-market approach in the following sections.

3. Australia

Visitor Growth

Australian outbound tourism posted 6.8 percent growth in 2013. Holidaymakers led the way with arrivals up 8.1 percent.

Economic factors

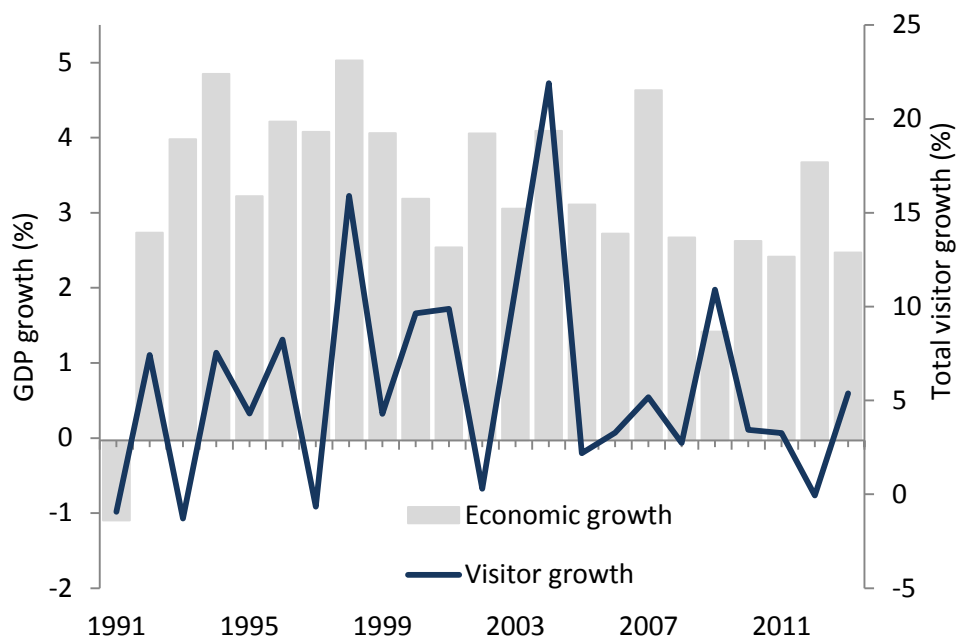
Australia’s economic growth has been subpar and waned across 2013 (see Figure 13).

For most key markets that would reduce visitors arrivals. But New Zealand’s diaspora means Visiting Friends and Relatives make up a much larger fraction of total visitors than other countries.

Moreover, New Zealand behaves much more like an Australian domestic market than an international destination.⁵ When the Aussie dollar is high Asian markets make for more attractive destinations than visiting New Zealand. Our regressions bear this out.

Figure 13 Australia’s economy waned across 2013

Growth in visitors (total people) and economic growth (change in real GDP)



Source: IMF, Statistics New Zealand

New Zealand specific factors

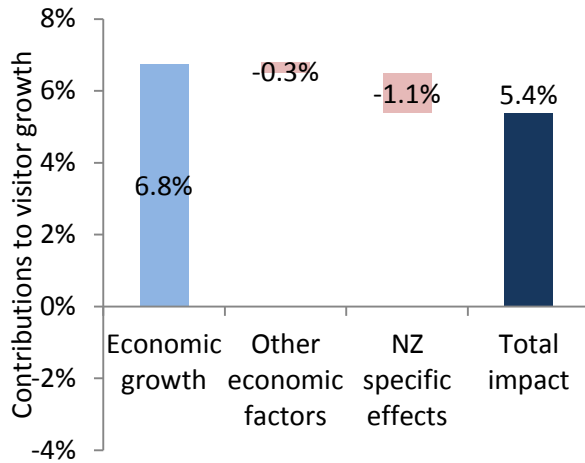
To better isolate contributing factors, for Australia we look at both total visitors (see Figure 14) and holidaymaker departures (see Figure 15). In the case of total visitors, New Zealand specific factors are negative but for Holidaymakers New, Zealand

⁵ The correlation between Australia’s economic growth (in the preceding year) and growth in visitors to New Zealand is negative since 1990.

growth has outstripped international outbound. With the high kiwi weighing on the holidaymaker's wallet, New Zealand specific factors are required to square the high holidaymaker growth.

Figure 14 Contributions to 2013 Australian total visitor growth

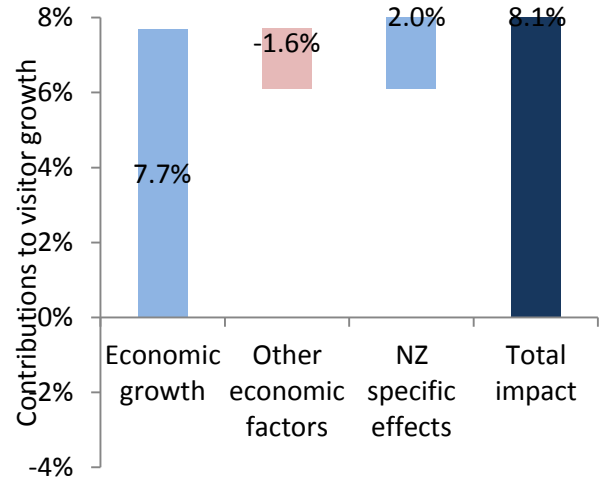
Growth in visitors (total people) and economic growth (change in real GDP)



Source: IMF, Statistics New Zealand

Figure 15 Contributions to 2013 Australian Holidaymaker growth

Other economic factors include air capacity, the exchange rate and one-off events



Source: NZIER, Statistics New Zealand

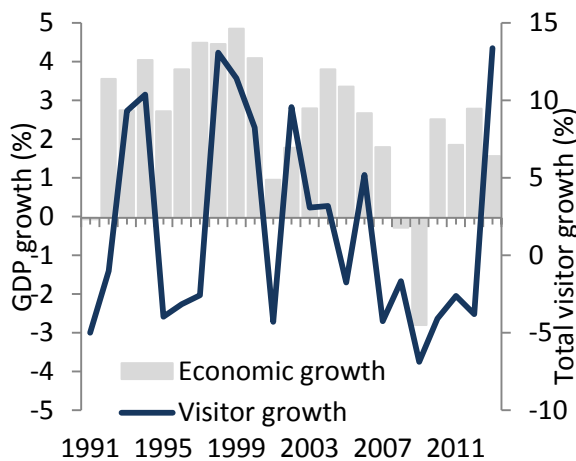
4. United States

Visitor Growth

2013 was the strongest growth in US visitors since 1987. Total visitors surged 13.4% – there were 23,700 more visitors in 2013 compared to 2012. Majority of this growth was from holiday makers (21,100 or 89% of the growth).

Figure 16 US visitor growth outpaces economic growth

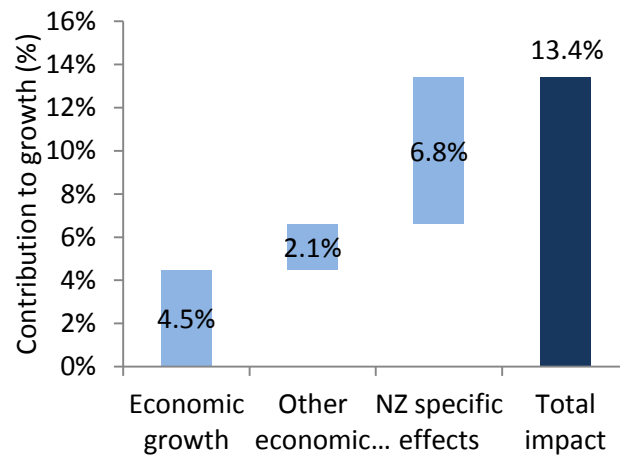
Growth in visitors (total people) and economic growth (change in real GDP)



Source: IMF, Statistics New Zealand

Figure 17 Contributions to 2013 US visitor growth

Other economic factors include air capacity, the exchange rate and one-off events



Source: NZIER, Statistics New Zealand

Economic factors

The recovery in the US economy is gathering momentum. Labour and housing markets are on the mend. Equity markets are soaring, boosting financial wealth.

These factors are boosting spending across western markets, including on international travel (see Figure 16)

New Zealand specific factors

These factors are boosting spending across western markets, including on international travel (see Figure 17).

These additional factors explain only a fraction of US visitor growth.⁶ After accounting for US economic factors, New Zealand specific factors explain at least half the visitor growth in 2013.

⁶ Our regressions reject the idea that macroeconomic factors are sufficient to explain visitor growth in 2013 – other factors are also responsible.

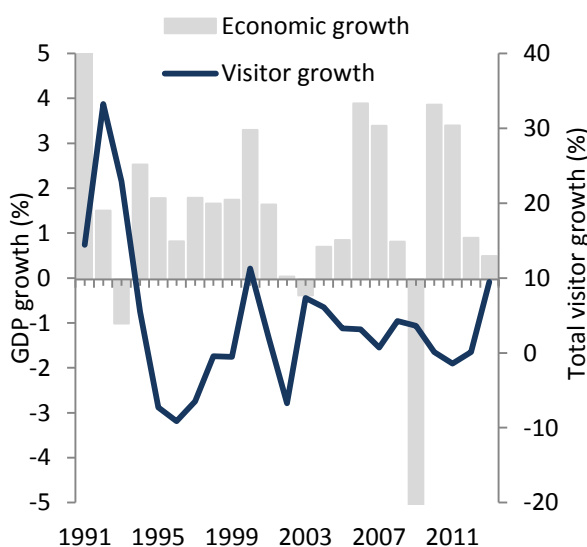
5. Germany

Visitor Growth

The German economy has recorded much better growth than its euro area peers. Traditionally a powerhouse of global tourism, this growth has provided lift to outbound tourism and particularly long-haul markets. New Zealand is up a chunky 9.5 percent over the year. Growth was particularly strong in the 15-24 age cohort (15 percent) with a change in the school leaving age impacting growth.⁷

Figure 18 German visitor growth faster than economic growth

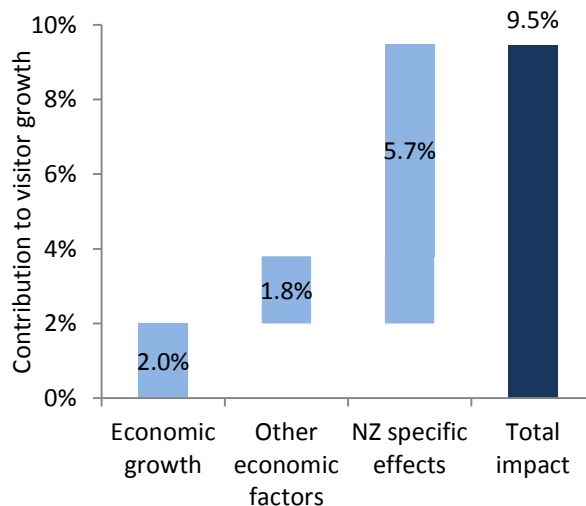
Growth in visitors (total people) and economic growth (change in real GDP)



Source: IMF, Statistics New Zealand

Figure 19 Contributions to 2013 German visitor growth

Other economic factors include air capacity, the exchange rate and one-off events



Source: NZIER, Statistics New Zealand

Economic factors

Figure 18 shows that economic recovery, a strengthening euro over 2013 explains about 40 percent of the increase in the growth in total visitor numbers in 2013.

New Zealand specific factors

So New Zealand specific factor are likely to responsible for the bulk of the increase in visitors from Germany. Figure 19 shows the relative pace of growth of the economy and visitor arrivals.

⁷ Stripping out this cohort, growth from the German market was still remarkably strong – 7.4 percent. Working holiday visas from Germany also increased because of the lowering of the school leaving age.

6. Japan

Visitor Growth

Visitors from Japan climbed 3.4 percent in 2013, building on growth from 2012 that halted dwindling visitor arrivals over the previous 15 years.

Economic factors

Abe economics shook up the Japanese economy from late 2012. Consumers have begun spending albeit at modest levels.

Japan’s economy grew almost 2 percent in 2013 (see Figure 20). But Japanese outbound tourism (ex-Asia) fell -1.7 percent in 2013.

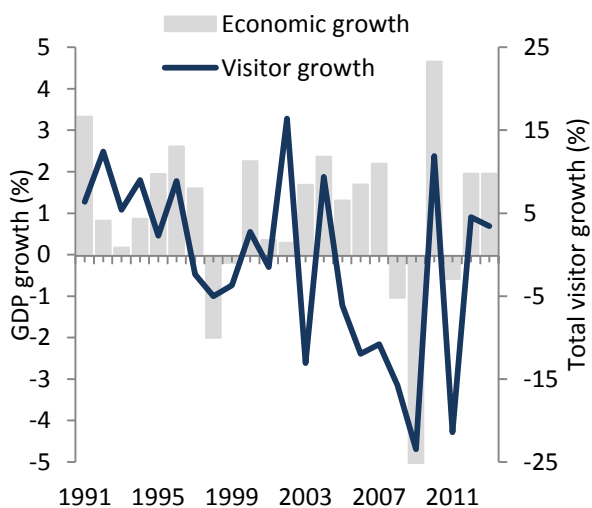
Other economic factors also worked against the New Zealand market – the yen is weak and capacity has been reduced.

New Zealand specific factors

Figure 21 shows New Zealand specific factors offset the negative impact of other economic factors. In 2013 visitors to Australia from Japan fell 7.1 percent – so the New Zealand experience was remarkably strong.

Figure 20 Japanese visitor growth recovers with economic stimulus

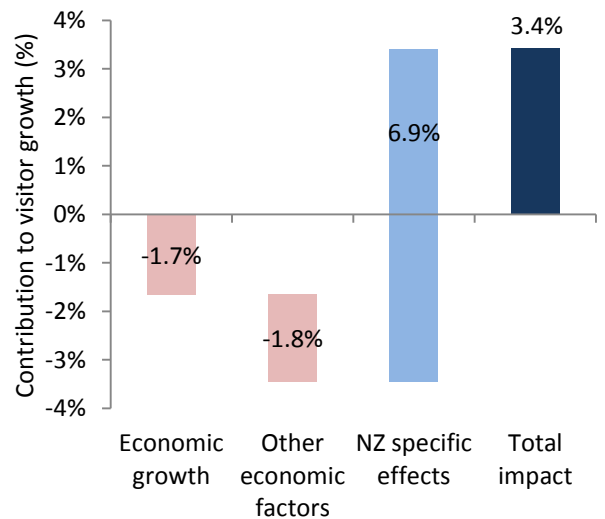
Growth in visitors (total people) and economic growth (change in real GDP)



Source: IMF, Statistics New Zealand

Figure 21 Contributions to 2013 Japanese visitor growth

Other economic factors include air capacity, the exchange rate and one-off events



Source: NZIER, Statistics New Zealand

7. United Kingdom

Visitor Growth

Visitors from the UK grew a modest 1.4 percent in 2013, arresting a long slide that started in the mid-2000s.

Economic Growth

Visitor growth to New Zealand is very similar to total outbound of 1.0 percent but long-haul outbound is much weaker. The England cricket team’s tour of New Zealand will have boosted visitor numbers but growth was broad-based across 2013.⁸

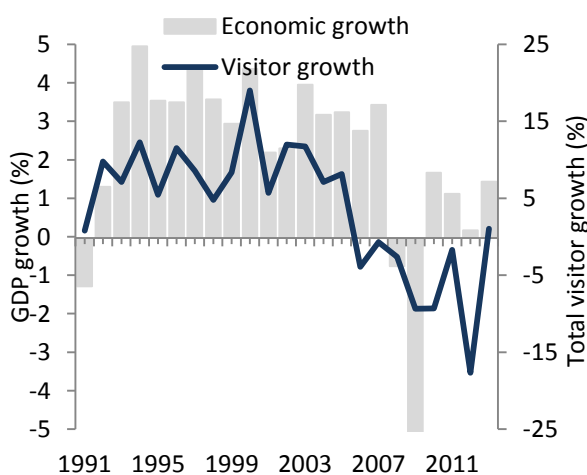
The UK economy is recovering (see Figure 22) but other economic factors are in play including the exchange rate, and lower air capacity that provide headwinds for the UK market.

New Zealand specific factors

That means New Zealand specific factors have been the overwhelming driver of UK visitor growth (see Figure 23). Survey measures suggest the UK market responded well to the middle-earth campaign (see .Figure 67 and Figure 88).

Figure 22 UK visitor growth similar to economic growth

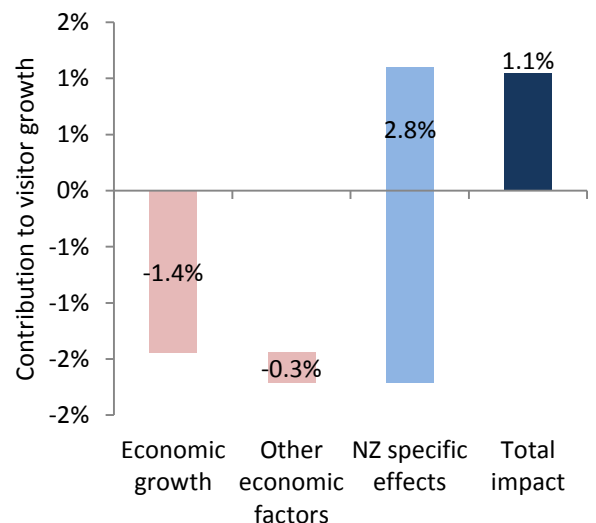
Growth in visitors (total people) and economic growth (change in real GDP)



Source: IMF, Statistics New Zealand

Figure 23 Contributions to 2013 UK visitor growth

Other economic factors include air capacity, the exchange rate and one-off events



Source: NZIER, Statistics New Zealand

⁸ An additional 1,184 holidaymakers in Q1, 272 in Q2, 1,312 in Q3 and 1,312 in Q4.

8. Canada

Visitors from the Canadian market grew lifted 3.8 percent in 2013 with growth in holidaymakers hitting 7.7 percent.

Economic Growth

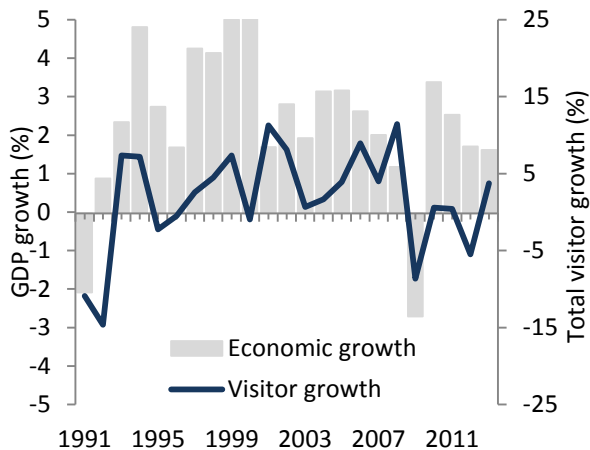
The Canadian economy is improving (see Figure 24) but lags behind the US. The kiwi looks high compared with the loonie although direct air capacity remains sounds.

New Zealand specific factors

New Zealand specific factors are a chunky fraction of Canadian visitor growth (see Figure 25).

Figure 24 Canadian visitor growth outpaces economic growth

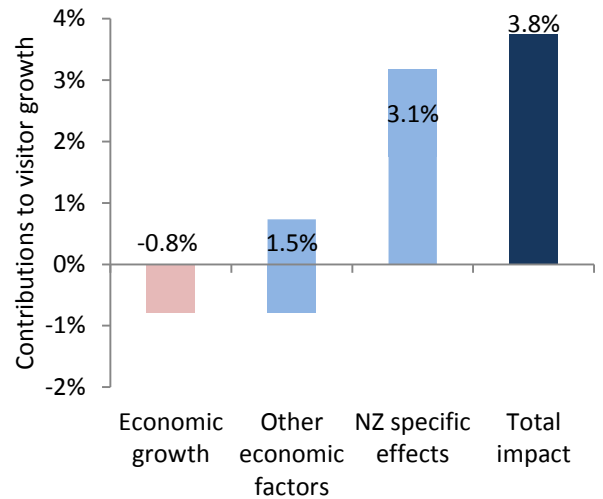
Growth in visitors (total people) and economic growth (change in real GDP)



Source: IMF, Statistics New Zealand

Figure 25 Contributions to 2013 Canadian visitor growth

Other economic factors include air capacity, the exchange rate and one-off events



Source: NZIER, Statistics New Zealand

Appendix A Summary table

Table 1 Summary of key data inputs

	NZ visitor growth	Outbound visitor growth	Economic growth 2012	Economic growth 2013	Exchange rate depreciation	Capacity growth
Australia	5.4	6.8	3.7	2.5	8.5	0.8
US	13.4	1.8	2.8	1.6	1.2	8.4
Germany	9.5	2.0	0.9	0.5	0.9	
Japan	3.4	-5.5	2.0	2.0	23.7	-4.9
UK	1.0	1.1	0.2	1.4	2.1	-36.3
Canada	3.8	-0.8	1.7	1.6	4.3	25.2

Source: Statistics New Zealand, Reserve Bank of New Zealand, various statistical agencies.