

# Tourism beyond Covid-19

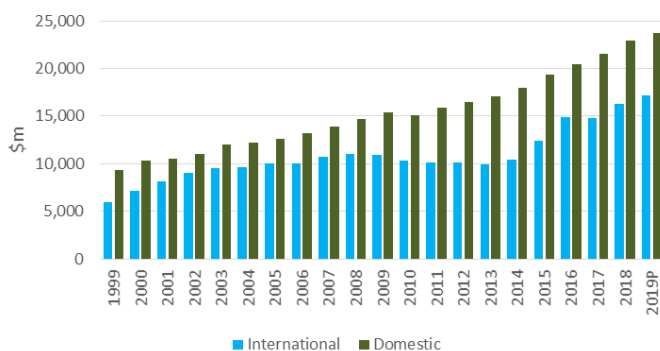
## Is the future local and green?

The post-Covid Budget delivered some big numbers in offering support to help the economy recover from lockdown, but its effect still depends on how industry responds to government funded support. Much of the assistance seems aimed at restoring activity to its former levels, rather than pivoting away from activities that, even before Covid-19 appeared, were beginning to show signs of unsustainability.

One such activity was tourism, which was raising concerns in some places about excessive use, congestion and environmental degradation.<sup>1</sup> With borders closed for the foreseeable future New Zealand tourism is facing a loss of substantial business. But just how large is the hole in the industry's fortunes, what can it be plugged with in the short term, and how can the industry reposition itself over the long term for a more sustainable future?

### Figure 1 Tourism spending in New Zealand over time by type of tourist

Nominal dollars, including GST



Source: Statistics New Zealand Tourism Satellite Account (2019) Table 2

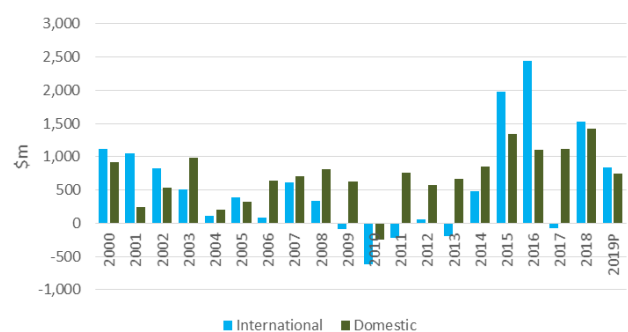
### New Zealand's biggest tourist market is New Zealanders...

Public commentary has awoken to the realisation that, despite the focus on international tourism in much industry promotion, most tourism expenditure comes from New Zealanders exploring their own country. Figure 1 shows that domestic tourism has long provided a larger share of tourism spending. Following the Global Financial Crisis in 2008, domestic tourist spending picked up quickly when foreign tourism spending dropped and took years to recover, and we can expect this pattern to be more pronounced post-Covid-19.

### ...and they are also more consistent performers over time

International tourism spending has grown faster than domestic tourism in recent years, but off a smaller base. Figure 2 shows that in 11 of the past 20 years domestic tourism accounted for a larger annual incremental increase of spending than international tourism, and it was only in 2015 and 2016 that there was a significantly larger increment from international tourists.

### Figure 2 Growth in tourism spending by type of tourist



Source: NZIER, drawing on Statistics New Zealand Tourism Satellite Account, Table 2

<sup>1</sup> <https://www.pce.parliament.nz/publications/pristine-popular-imperilled-the-environmental-consequences-of-projected-tourism-growth>

## But tourism figures are not all that people think they are...

The term 'tourism' covers activities undertaken by people away from their home for less than 12 months, in another country in the case of international tourists, or more than 40 kilometres from home in the case of domestic tourists. Tourism is a diverse sector covering the outputs of many other industries that are attributable to tourists, including accommodation, hospitality, transport, retail and visitor attractions and site management.

Of the domestic tourism spending of \$23.7 billion in 2019, 24% comprised spending by government and businesses, and 76% spending by New Zealand resident households, mostly holidaymaking and visiting friends and relatives.

Domestic tourism accounted for 58% of total tourism spending, and households alone for 44%.

International tourism contributed \$17.2 billion in spending in 2019, or 42% of total tourism expenditure, less than the share of New Zealand households. Statistics on international tourists cover all overseas visitors staying for

less than a year, so they include activities that do not align closely with the typical image of holidaymaking tourists.

Table 1 shows overseas students in New Zealand for study account for 23% of international 'tourist' spending, and because they stay in the country for many months at a time spend much more per student visitor (about \$58,000) than the average of other tourists (\$3,470).

At the other extreme, despite its high visibility, cruise tourism accounts for about 9% of international visitor arrivals (about 350,000 cruise passengers and crew) but only 3% of international tourist expenditure in New Zealand. This is not surprising as cruise lines are overseas owned and their passengers only spend a day at each port of call, often eating the meals provided on board ship rather than onshore.

Surveys of the principal purpose of overseas visitors' trips to New Zealand suggest just over half come for a holiday and 28% are visiting friends and relatives. Business trips and conventions account for a further 10%, formal education accounts for 2% and a further 8% come for miscellaneous other purposes.

**Table 1 Sources of tourist spending and trip purpose in New Zealand in 2019**

Tourist spending	\$m	% shares
<b>Total domestic tourist spending</b>	<b>23,697</b>	
- <i>Business and government</i>	5,767	24%
- <i>Household tourism</i>	17,930	76%
<b>International tourism spending</b>	<b>17,162</b>	
- <i>Cruise tourism</i>	570	3%
- <i>Overseas students</i>	3,899	23%
- <i>Other tourism</i>	12,693	74%
International visitor arrivals and principal purpose of visits	Visits	% shares
<b>Total international visitors in 2019</b>	<b>3,867,756</b>	
- <i>Holiday</i>	2,007,510	52%
- <i>Visiting friends &amp; relatives</i>	1,073,853	28%
- <i>Business &amp; conventions</i>	382,757	10%
- <i>Education</i>	67,158	2%
- <i>Other</i>	332,740	8%

Source: NZIER, drawing on Statistics New Zealand Tourism Satellite Account, Tables 4, 5 & 8

## ...and popular stereotypes are also sometimes awry

Although domestic tourists are commonly thought to be less lucrative than their international counterparts, preferring self-catering and motels rather than higher cost hotels and dining out, Table 2 drawn from the Tourism Satellite Account shows that since 2016, domestic tourists have spent more per guest night on average than overseas visitors, and that average spend has increased over successive years.

Some international tourists are prepared to pay high prices for quality services, but overall the nightly spend of international tourists is dragged down by a high proportion of free independent travellers also opting for low cost travel and accommodation, but who tend to stay in New Zealand for longer and contribute more to spending than higher paying tourists on shorter trips.

**Table 2 Average spend per guest night by different types of tourist**

	International tourists	Domestic tourists
2016	\$973.80	\$929.34
2017	\$891.31	\$986.48
2018	\$927.74	\$1,027.49
2019	\$987.46	\$1,039.21

Source: NZIER, drawing on Statistics New Zealand Tourism Satellite Account, Table 10

## A large hole and no immediate means to fill it

International tourists of all types accounted for 42% of tourist spending in New Zealand, but most of that spending will be curtailed if borders remain closed pending reliable means of vaccination, antibody testing or other methods of ensuring infection does not re-enter the country. For some years international tourism has been New Zealand's largest export earner, but that title will reside elsewhere until international movement of people resumes without the impediment of 14 days quarantining on arrival.

If students can be persuaded to return on condition of enduring quarantine on entry, around 23% of the international tourist spending could be recovered. And if a trans-Tasman bubble agreement were reached enabling cross border travel without quarantining, Australians who spent \$2.7 billion in New Zealand in 2019, might recover another 16% of this lost tourist expenditure.

Recent public calls for New Zealanders to get out and see more of their own country and support local businesses are aimed at getting some of the \$8 billion that New Zealanders spend on overseas trips annually to be diverted to domestic tourism. If this were diverted in full to domestic tourism, it would bring in the equivalent of 38% of international tourism expenditure loss.

## It will take more than a day or two...

Domestic tourism contributed \$65 million of spending per day on average in 2019, so there is some appeal in getting New Zealanders to spend more of their time in domestic tourism activities. Some commentators have called for creation of new public holidays to help this process, but at 2019's rate an extra public holiday would increase tourism expenditure by the equivalent of only 0.4% of the international tourism loss. An extra day's holiday would need to generate far more than domestic tourism's average daily spend to make an appreciable impact on plugging the hole in tourism revenues.

New public holidays do little to redress the loss of international tourists, and represent a cross-subsidy of tourism-related businesses by all the other businesses that bear the cost of lost productivity of their workers' extra days off, many of which are also doing it hard in post-Covid recovery. New public holidays will also increase congestion at popular sites, and traffic and accidents along the way. More would be achieved by encouraging Kiwis to use their annual leave entitlements when they can, spreading the load away from particular statutory holidays, although some peaking would still occur around school holidays.

Combined with a recovery to last year's levels of spending by overseas students and Australian tourists, diverting Kiwis' spending on overseas trips to domestic tourism could fill over 80% of the \$17 billion hole in international tourism spending caused by Covid border closures, in theory.

But it's very uncertain that spending by these tourist groups would return to such levels soon. Even the 52% of 2019 spending by domestic tourists may shrink in post-Covid recession, as Kiwis and foreign nationals alike face reduced incomes and constraints on spending and travelling. People may retain a heightened risk aversion after the Covid crisis and be hesitant in getting back onto planes, giving recovery more of a broad U-shaped than a narrow V-shaped profile.

## A tough time before a new beginning

In this environment many tourism operations will face financial hardship, and some will close. Small enterprises

offering limited attractions that have depended on large volumes of new visitors sampling their services will be severely challenged by the absence of passing international visitor trade. Those which have more diversified offerings, or which can reinvent their offerings to provide something new with changing seasons and attract revisits will be better positioned to survive and thrive on the smaller stock of New Zealand domestic tourists.

Tourism will not revert to what it was in a hurry, and some restructuring will be necessary to attract tourists and ensure their willingness to come again. Co-ordination of complementary attractions and services may be one solution, requiring new mergers, alliances and consortia to sell each region's attractions more consistently.

Some tourism businesses have already pivoted their operations to attract more domestic tourists, lowering their charges or tailoring offerings to local tastes. But some Covid fall-out is beyond their control, such as the shortage of overseas visitors on temporary work visas who provide much of the labour in tourism resorts.

The Covid-19 pandemic effectively nullified the government's 2018 decision to charge a tourist levy on visitors entering New Zealand, which was expected to raise around \$80 million a year to be spread across DOC and local councils to improve tourist infrastructure. Similarly charging foreign tourists twice as much as locals for using the most popular Great Walks will have no beneficial effect, until foreign tourists arrive again in large numbers.

DOC however has seen its annual allocations increased substantially in the budget, so it can improve the resilience of its infrastructure of camps, huts and tracks against not just hordes of visitors, but also the ravages of increasingly frequent natural hazards such as storms, floods and landslips.

The post-Covid budget allocated \$400 million for tourism industry recovery, a modest sum relative to the size of the impact borne by tourism. But that reflects the difficulty of offsetting the loss of international visitors, and the desirability of shifting the industry away from returning to dependence on large numbers of low yielding visitors supporting mainly low paying jobs in the hospitality industries.

The budget included \$1.1b allocated for environmental spending, largely targeted on tree planting and pest control with the joint aim of environmental improvement and job creation. Some laid-off tourism workers may, with suitable training, pick up work in these environmental ventures, or in agriculture and horticulture facing

shortages in overseas visitors with temporary working visas, but such work is unlikely to provide a long term source of income for most workers displaced from tourism.

Amelioration of climate change was scarcely mentioned in the budget and improving habitats for biodiversity and water quality are hardly likely to have a major impact on tourism. But beyond the short term focus on getting companies and people working again, restructuring in the tourism industry also presents opportunities to transform it to a more sustainable future level of operation.

## Tourism in search of a new direction

Tourism inevitably involves travel and many travel modes are dependent on fossil fuelled vehicles, so tourism has an uneasy relationship to efforts to curb human-induced climate change. International air travel and shipping have been outside the tentative restraints on greenhouse gas emissions imposed by international agreements such as the Kyoto Protocol and the Paris Accord, but as emission targets tighten they are likely to be brought under such agreements, and bear more of the cost of emissions abatement.

The tyranny of distance still applies to New Zealand tourism, where most overseas visitors have no practical alternative to flying in by plane. Once here, a combination of long distances between places, skeletal rail and road networks and challenging terrain increase the cost and time spent in internal transport and many remote spots rely on air access. Keeping sufficient movement of people to keep tourism viable while reducing the carbon emissions used in doing so is a substantial challenge for building back better from the Covid upheaval.

While some other countries can shift demand off high emitting flights to lower emitting surface transport alternatives, New Zealand lacks the infrastructure to do this. Electrification of vehicles for short haul purposes, improved energy efficiency and insulation in buildings and distributed generation to reduce the peakiness of electricity demands on the distribution networks are small steps to transforming the large legacy stocks of buildings and vehicles used in tourism.

It takes a long time to shift the composition of legacy stocks, and the sooner that starts the better. Government funding for recovery could assist this by nudging tourism businesses into adopting more environmentally sustainable practices as part of their rebuild. In the long term, New Zealand needs better ways of restraining tourist emissions than encouraging tourists to travel less but spend longer at each destination.

New Zealand has earned international recognition for its handling of the Covid-19 crisis, and that may give it an early advantage as a destination re-opening for tourism. The crisis has revealed the vulnerability of tourism to disruptions in its supply of visitors, and the fragility of some operators within the industry.

Despite the deep cuts that will be caused by the pandemic response and recovery, the upheaval also presents opportunity for a fresh start and reset of the country's tarnished *100% Pure* image with a commitment to more sustainable business. The impact of Covid-19 on tourism also depends on the speed at which restrictions can be lifted, the inter-industry impact of which is subject of some NZIER modelling that will be reported in a later *Insight*.

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