

focus

New Zealand tourism: 100% Pure at 70% Capacity



COVID-19 border closures in March 2020 took tourism, one of New Zealand's most important industries, from hero to zero literally overnight. The next couple of years of tight border controls and periodic domestic lockdowns was painful for a sector reliant on international visitors. While robust domestic tourism, together with some government assistance, helped the industry during the COVID years, the industry significantly downsized as many tourism operators either folded and/or laid off staff.

...the post pandemic tourism recovery is now well underway...

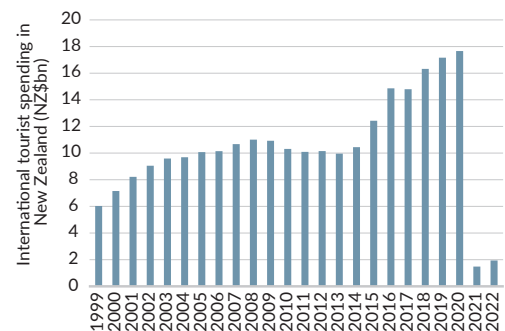


Fortunately, the post pandemic tourism recovery is now well underway, with the sector gradually moving up the gears, providing a welcome economic boost as other parts of the economy battle to stay out of reverse. Tourism industry capacity, however, is constrained meaning it will likely be a prolonged period till we see a full recovery.

A critical part of the economy

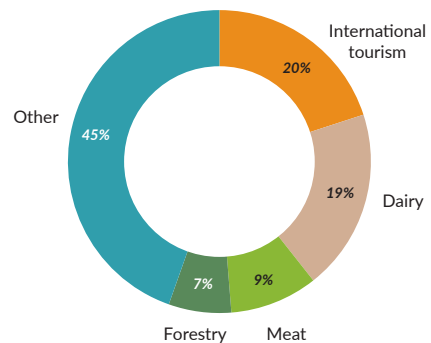
Tourism was New Zealand's biggest export industry (after running neck-and-neck with dairy for several years), accounting for around 20% of exports prior to COVID-19. In combination with domestic tourism it accounted for a whopping 14% of total GDP and employed about 435,000 people. In 2019 New Zealand welcomed almost four million international visitors. But then the pandemic hit and border controls sent this poster child of the economy into the naughty corner. International visitors slowed to a trickle and spending quickly dried up.

INTERNATIONAL TOURISM SPEND GROWTH (MARCH YEAR END)



Source: Stats NZ

INTERNATIONAL TOURISM WAS THE BIGGEST CONTRIBUTOR TO NZ EXPORTS PRIOR TO COVID-19 (YEAR TO MARCH 2020)



Source: Statistics New Zealand



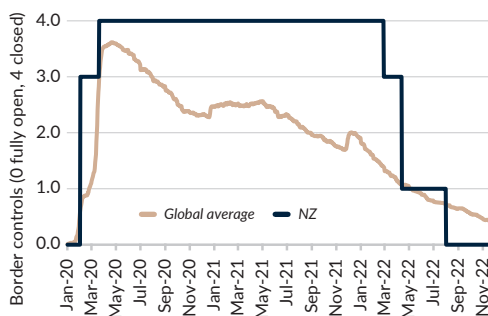
...domestic tourism spend grew during the period of border closures...

Border re-openings – false starts and new dawn

New Zealand's border closed on 19 March 2020. Border crossings were heavily restricted for the next two years, with the exception of the trans-Tasman (and Cook Islands) bubble that temporarily reconnected New Zealand and Australia from April 2021. A COVID-19 resurgence in Australia led to the early closure of the bubble in late July 2021.

While internationally border restrictions began easing through the second half of 2021, it wasn't until late February 2022 that New Zealand's border was progressively reopened. By 31 July 2022, the border was fully open.

NEW ZEALAND HAD STRICTER BORDER CONTROLS THAN MOST OTHER COUNTRIES



Source: ourworldindata.org

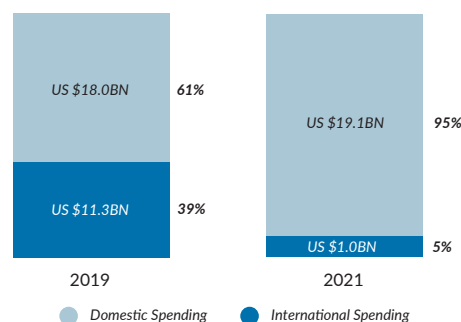
Domestic tourism softened the economic blow of COVID

Tourism's contribution to New Zealand's GDP fell from 14% in 2019 to around 9% in 2021 as border closures restricted international visitor numbers. Fortunately, domestic tourism, which typically has a bigger slice of the dollar spend, helped buffer the overall impact.

In fact, domestic tourism spend grew during the period of border closures as New Zealanders redirected some of their usual offshore travel budgets to domestic adventures (as well as new furniture, kitchen renovations, second hand motorhomes and boats, among other things).

Moreover, various hotels in Auckland, Christchurch, Hamilton, Rotorua and Wellington became Managed Isolation and Quarantine (MIQ) facilities, securing valuable income streams.

DOMESTIC VS INTERNATIONAL SPENDING



Source: Statistics New Zealand

Government support through COVID

The government’s response to COVID-19 for the tourism sector was mixed. The wider industry was partially supported by specific funding packages, namely:

In 2020 NZ\$400m was directed towards the tourism industry in the form of the **Tourism Recovery Package**, though NZ\$74m of this was not spent. The largest component was NZ\$217m for the Strategic Tourism Assets Protection Programme (STAPP), of which half was in the form of loans as opposed to grants.

In 2021 NZ\$200m was directed to the **Tourism Communities: Support, Recovery and Re-set Plan**, which was directed at five South Island communities – Queenstown Lakes, Southland, Kaikoura, Mackenzie, and Westland.

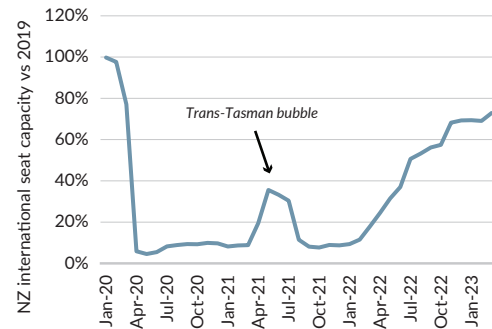
Unfortunately, broader border and immigration settings have frustrated many in the sector. New Zealand was slow to reopen its borders relative to other countries and immigration settings have significantly impacted the availability of workers.

Capacity challenges linger

There are two key capacity challenges hampering the recovery in tourism.

First, the ability to get international tourists into the country. Airlines are gradually bringing back services but capacity is still well below 2019 levels. For example, current peak summer season airline schedule data suggests international seat capacity is at around 70% of pre-pandemic levels. In addition, the cost of travel remains well above pre-pandemic levels. China’s recent border reopening moves will assist aviation capacity but we don’t expect total international capacity to be back to 2019 levels until 2024–25.

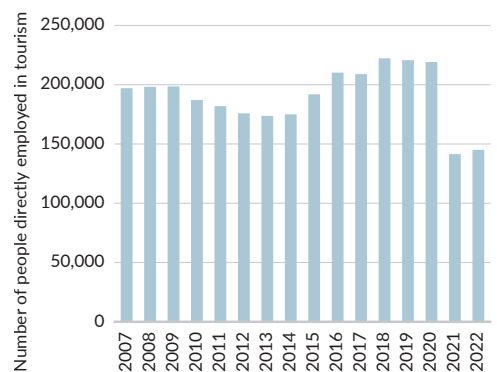
AIRLINE CAPACITY REBUILD



Source: OAG

Second, the labour necessary to provide tourism services. The industry directly employed about 220,000 people pre-pandemic (a further 215,000 were employed indirectly in sectors that supply the tourism sector). The departure of seasonal (working holiday) labour, cost cutting and insolvencies reduced this to around 140,000 by March 2021, according to Statistics NZ data, 65% of previous employment levels. The recovery to-date has lifted employment levels through 2022, yet a major challenge across New Zealand business is hiring staff, meaning the industry remains understaffed.

STAFF WANTED – NUMBER OF PEOPLE DIRECTLY EMPLOYED IN TOURISM (YEAR TO MARCH)



Source: Statistics New Zealand



**...industry prices that
have risen sharply
include car hire and
motorhome rentals...**

Value over volume

While tourism supply constraints are hampering the wider recovery, for some operators this has created a perfect storm for a return to very strong levels of profitability.

Economics 101 says that when supply of a product or services falls relative to demand, the price will rise. This has been a feature across key tourism segments over the past 12 months. The most visible being aviation, with airfares up on average by around +50% on pre-pandemic levels over the past six months. Air New Zealand will consequently follow its biggest underlying loss in its history during the year to June 2022 with one of its most profitable periods ever this financial year. Other tourism segments where capacity has fallen materially and industry prices (or yields) have risen sharply include car hire and motorhome rentals, thereby creating a strong rebound in profitability for some operators.

However, economics 101 also says that industry competition should eventually lower excess returns. As capacity returns, and notwithstanding cost inflation pressures, we expect prices and company profits to fall more akin to pre-COVID levels over time.



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