INTERNATIONAL TOURISM AND THE NEW ZEALAND ECONOMY

Over the last two years there has been a rapid increase in the number of tourists visiting New Zealand. While the available evidence suggests that the industry is still comparatively small its growth has been sufficient to have a discernible contribution to the expansion of the economy.

Introduction

The New Zealand economy has recently experienced its strongest and most sustained upturn for over a decade. Although most areas of the economy have grown strongly, there have been few which appear to have matched the growth achieved over this period by the tourism industry. The economic expansion in industrial countries has generated a surge in international tourism and New Zealand appears to have benefited more than proportionately from this. Part of the recent growth can probably be related to the sharp improvement in the competitiveness of the industry, due to the 20 per cent devaluation in July 1984. However, despite the relative strength of the New Zealand dollar since the float the latest statistics indicate continued steady growth and it appears that growth prospects for the future are favourable.

This article discusses the range of statistics available to analyse the industry, outlines recent trends in the growth of international tourism in New Zealand, examines the contribution of the sector to New Zealand's recent economic performance, and concludes with a brief discussion of the prospects for the future.

Measuring the Tourist Industry

The usual starting point for analysing the economic contributions of an industry or sector is to look at its contribution to Gross Domestic Production (GDP). The national accounting statistics prepared by the Statistics Department allocates all the productive establishments in New Zealand to 21 market and 4 non-market industry groups, and total GDP is the sum of the added value (wages and operating surplus) of these groups. The contribution of a particular sector is measured by comparing its added value with total GDP. However, the international tourist industry does not fit readily into this framework. It does not consist of a readily identifiable set of enterprises producing a particular product. The distinguishing characteristic of the industry does not relate so much to the product, as to one particular class of consumer — the international tourist. Thus many or most transactions which produce value by servicing the needs of an international tourist are conducted by enterprises which perform similar or identical services for New Zealand residents. Even where the enterprise can reasonably be identified as tourist-orientated (i.e. hotels, hire cars) the main source of business may be domestic tourism or domestic business travel. In other cases, services may be provided to tourists by industries which generally are not considered to be tourist orientated (i.e. hairdressing or retailing). It would be impossible to distinguish all the transactions that may be labelled 'international tourism' from the mass of routine transactions which provide the basis for New Zealand's National Accounts data.

Because the National Accounts do not provide readily usable data, two other sources have typically been used to describe and analyse trends in the industry. The first are the immigration documents collected at the point of entry into the country. These provide some basic statistics on the magnitude of visitor flows, as well as more detailed information on some of their broad characteristics. The second are the details of foreign exchange receipts that foreign exchange dealers must supply to the Reserve Bank. These provide the basis of the Overseas Exchange Transactions (OET) statistics produced by the Reserve Bank. Two categories, 'travel' and 'fares' provide some indication of the level of overseas exchange receipts from international tourists. Receipts under the category 'travel' primarily consist of foreign exchange received from foreign visitors who are in New Zealand, while receipts classified under the category 'fares' includes the foreign exchange earnings principally of Air New Zealand.

However, the OET data has a number of limitations. It is essentially designed to measure payments and receipts involving the conversion of New Zealand currency into foreign exchange (and vice versa), and the travel receipts data is not, and was never intended to be, an accurate indicator of the level of expenditure by international tourists. Discrepancies can arise between movements in the recorded OET figure and in actual tourist expenditure. The primary reason is simply that the 'travel' category of OET statistics includes receipts not just from tourists but also from all short-term visitors including, in particular, those travelling for business purposes. Moreover foreign currency converted to New Zealand currency may not all be spent, and any balances reconverted at the conclusion of the visit have no impact at all on the domestic economy. The 'fares' category of the OET statistics mainly covers earnings from Air New Zealand's international services. But again, only some proportion of this revenue can be attributed to passenger traffic to and from New Zealand and a further segment of this will be unrelated to tourism. Clearly it is of limited use as an indicator of the level of tourist receipts.

Finally, it should be noted that the removal of most exchange control regulations in December 1984 has adversely affected the reliability of OET statistics on foreign exchange earnings and payments. If earnings are not repatriated (as is not now required), they are not captured in the OET statistics. The extent to which this occurs is dependent on businesses' perception of exchange rate risks and other related factors, but when it does occur an associated understatement of actual earnings arises. Conversely, earnings during other periods may be overstated. Although this consideration is most likely to apply to merchandise exports, in principle it could also apply to the 'travel' receipts category. Although the 'product' is purchased domestically, payment need not necessarily involve the conversion of foreign exchange for New Zealand currency. To make matters worse there is no historical information which can be used as a guide to the likely size of the error.

Tourist Arrivals

The number of international tourists visiting New Zealand first began to assume some significance in economic terms in the early 1960s. This was part of a world-wide upturn in travel due to rapidly rising living standards and technological developments in the airlines industry which made air travel both cheaper and more convenient. Each of these factors made holidaying in 'relatively distant' destinations more feasible in economic as well as practical terms for a growing proportion of the population in the richer industrial countries. These factors underpinned a growth trend in the number of tourist arrivals in New Zealand up until the mid-1970s, with fluctuations generally occurring in line with cyclical variations in economic growth in the larger industrial countries. The annual growth in tourist arrivals in the period 1960–1969 averaged 16.6 per cent, varying between 10 and 28 per cent per year. The 'oil shock' of the mid-1970s brought slower economic growth and increased the cost of international air travel; resulting in a much more restrained growth in traffic. Apart from a comparatively short-lived upturn in 1979/80, the strongest annual increases in arrivals until recently have been in the region of 6 — 10 per cent. Though the upturn in tourism in 1984/85 is not unprecedented, it is perhaps the most significant in the history of the industry because it represents growth from a much larger base.

This upturn began in late 1983 and early 1984, and continued to accelerate up until mid-1985. A total of 486,000 tourists arrived over the year to June 1985, a 16 per cent increase.

For a number of reasons, including close cultural links and geographical proximity, a large proportion of the tourists to New Zealand come from Australia. Although this proportion has fallen marginally over recent years, Australia still constitutes the main origin for tourists — accounting for around 40 per cent of the total. The United States accounts for 15 — 18 per cent of tourists, the United Kingdom about 8 per cent, Japan 6 per cent and Canada 4 per cent. The balance of tourist arrivals originate from a wide variety of other countries. These are predominantly European countries other than the United Kingdom — and in particular the Netherlands and the Federal Republic of Germany. However, over the past decade there has been a growing volume of tourism from countries in South-East Asia and the South Pacific.

The number of Australian tourist arrivals peaked in 1975/76, declined until 1981/82 but subsequently picked up and over the two years to March 1985 rose around 27 per cent. Tourism from North America has grown relatively strongly. Over the two years to March 1985, the number of United States tourists increased about 46 per cent, and the number of Canadian tourists by about 43 per cent. The most rapid expansion has been in the number of Japanese visitors which increased by 73 per cent over the same period.

Table 1
Tourist Arrivals

March Years	*Australia*	*USA*	*UK*	*Japan*	*Canada*	*Total Tourists*	*Total Short-term Visitors*
1975	177,692	36,893	17,038	5,525	10,355	285,332	361,194
1976	195,724	40,644	19,792	7,064	11,170	312,824	384,586
1977	186,708	42,150	18,896	7,696	11,536	306,378	380,222
1978	178,200	42,368	20,820	9,956	11,280	309,432	390,940
1979	175,295	44,142	20,838	10,533	11,628	324,184	418,744
1980	171,373	52,560	26,288	13,152	14,353	339,465	445,195
1981	168,678	55,317	27,810	15,712	14,600	348,960	463,456
1982	166,484	55,198	28,998	20,556	13,836	357,138	472,581
1983	170,851	56,624	29,761	23,384	15,594	372,669	487,658
1984	177,292	73,520	32,344	28,816	18,580	402,638	518,441
1985	211,054	81,048	32,950	40,372	20,064	469,570	596,995

Source: Department of Statistics.

Foreign Exchange Receipts from Travel

Movements in the travel receipts category of the OET statistics are generally related to movements in short-term visitor arrivals although the correlation is not precise. In the year to March 1983, for example, short-term visitor numbers increased by 3.3 per cent while travel receipts increased by only 1.6 per cent. Over the same period consumer prices were on average 15 per cent higher than the previous year. On the assumption that the prices of goods and services purchased by tourists would have increased at approximately the same rate as consumer prices in general, this implies a fall in the real value of receipts of about 13 per cent. Given the increase in visitor numbers in that year it is unlikely that actual expenditure would have fallen by that amount as variables such as the average length of stay and real expenditure per day are unlikely to change markedly from year to year. The divergence between the two indicators of real growth in the sector tends to confirm the limitations of the OET data which were discussed above.

In the last two years visitor numbers and real receipts have moved in the same direction. A 6 per cent increase in numbers in the year to March 1984 compares with an increase in receipts of about 26 per cent (with the CPI up only 4 per cent on average), while in 1985 visitor numbers were up 15 per cent and receipts up by 55 per cent (with the CPI up by 9 per cent). It appears that the 20 per cent devaluation of the New Zealand dollar in July 1984 may have contributed to the very pronounced growth of receipts over 1984/85. Although travel receipts generally represent expenditure on goods and services which are normally priced in New Zealand dollars, a proportion of tourist expenditure, for example packaged holidays, may have been priced and paid for in foreign currency. The New Zealand value of these would have increased by 20 per cent following the devaluation. In other instances, the strong growth in foreign tourist numbers may have prompted increases in the New Zealand dollar prices of tourist related services.

The strength of the New Zealand dollar over the last year has been reflected in a slowdown in the rate of increase in travel receipts. OET travel receipts for the December quarter of 1985 were only 2 per cent above those in December 1984, while receipts over the year to December 1985 were up only 3.1 per cent. This compares with an expansion of 53.6 per cent over the year to June 1985, and of 10.2 per cent over the year to September.

Assessing the Economic Importance of the Industry

The immigration and the OET statistics have some usefulness, but clear limitations, in analysing the size and growth of the international tourist industry. The migration data, for example, provides one indicator of volume increases in the industry but they cannot be usefully compared with the output of another industry to provide an indicator of the relative sizes of the industry.

The OET statistics provide a measure of the relative importance of international tourism as a source of overseas funds. Table 2 shows that the travel and fares categories receipts grew from 5.6 per cent of total receipts in 1980 to 9.5 per cent in 1985. Again this type of comparative analysis has its limitations and can be misleading. Because it is a comparison of gross receipts, it takes no account of the intermediate inputs, both domestic and imported, required to earn those receipts. Also, there is no good reason from an economic point of view why external earnings *per se* should have a special status relative to receipts from sales on the domestic market. Providing the exchange rate is at an appropriate level, the contribution to domestic product and economic welfare from domestic production is the same as that from foreign earnings. A table of relative export earnings will therefore overstate the overall economic importance of sectors which sell a large proportion of their output to foreigners.

Some indication of the relative size of the tourist industry can also be gained by comparing the OET statistics with various indicators of domestic activity. Table 3 for example compares foreign exchange receipts from travel with the primary indicator of domestic consumption expenditure surveyed retail trade. The ratio of travel receipts to retail trade has risen from 1.9 per cent in 1979/80 to 2.9 per cent in 1984/85. It is evident that, while tourist expenditures have risen rapidly they still remain small relative to total retail trade, and are therefore usually only a comparatively minor influence on the movement of this domestic expenditure indicator. There may have been an exception to this general observation in 1984/5. The growth in receipts (up 55 per cent) was so rapid in the March 1985 year that tourism could have made a significant contribution — perhaps as much as one-fifth of the 5 per cent real growth recorded in that year.

Tourist expenditures are however relatively more important in particular geographical localities and for

Table 2
OET Travel and Fares Receipts

Year Ended March	*Travel Receipts $m.*	*Fares Receipts $m.*	*Invisibles Receipts $m.*	*Total OET Receipts $m.*	*Travel Plus Fares as % of Invisibles Receipts %*	*Travel Plus Fares as % of Total OET Receipts %*
1980	197.1	137.4	992.1	5,933.3	33.7	5.6
1981	239.3	204.1	1,227.0	7,093.5	36.1	6.3
1982	299.4	252.3	1,574.7	8,282.4	35.0	6.3
1983	304.2	280.2	1,851.3	8,824.0	31.6	6.6
1984	384.4	407.1	2,220.1	10,118.7	35.7	7.8
1985	596.6	552.2	2,970.6	12,149.9	38.7	9.5

Source: Reserve Bank of New Zealand

Table 3
Overall Travel Receipts Relative to Retail Turnover[1]

March Year	Travel Receipts $m	Total Retail Turnover $m	Ratio of travel receipts, to Total Retail Turnover %	Retail turnover Accommodation and restaurants %	Other Retail %
1980	197.1	10,338.0	1.9	3.9	2.4
1981	239.3	12,421.5	1.9	4.0	2.5
1982	299.4	15,163.1	2.0	4.2	2.7
1983	304.2	16,250.6	1.9	3.8	2.5
1984	384.4	17,672.4	2.2	4.3	3.0
1985	596.6	20,383.0	2.9	5.9	4.1

particular classes of expenditure. No regional breakdown of OET receipts is available but it is possible to compare a breakdown of expenditure by category with retail sales in approximately equivalent groupings. Late in 1985 the Department of Tourist and Publicity published a comprehensive survey of international visitors for the year to September which included a breakdown of expenditure in terms of five categories. Roughly 26 per cent of expenditure was spent on accommodation and meals, 15 per cent on public transport, a further 26 per cent on coach tours and self-drive arrangements, 24 per cent on general personal expenditure (miscellaneous purchases, including souvenirs) and 8 per cent was not specified by respondents.

Based on the assumption that these relationships remained stable over the past few years, Table 3 presents a comparison of tourism expenditure with two sub-categories of retail turnover; turnover in restaurants, hotels and other forms of accommodation; and turnover in all other retail store outlets, excluding various food stores, furniture and furnishing, hardware stores and the automotive stores group.

The main observation is that tourism expenditure does indeed account for a much more substantial proportion of expenditure in several specific categories. This can be seen almost clearly with the restaurants/accommodation group, where tourism expenditure may represent as much as 6 per cent of total turnover (up from around 4 per cent in 1979/80). This ratio will of course be likely to be significantly higher in specific geographical locations (and during specific periods during the year).

The best conceptual measure of the size of the tourist industry is its contribution to GDP. While official data is not available, it is possible to provide a rough estimate by assigning the foreign exchange earnings of the industry (on the basis of the expenditure survey) to appropriate industry groups and by using the average relationships between input and output in those industries to estimate the contribution to GDP.

Table 4 sets out these estimates of the contribution of travel receipts to GDP. A similar exercise was not conducted for the 'fares' category because it is not clear what proportion of that category is associated with foreign exchange expenditure by tourists. Useful results would require Air New Zealand accounting data which is not publicly available. Again not too much emphasis should be placed on the actual figures. The main point is the very clear pattern evident with regard to the relative size of the industry over recent years. The economic contribution of the industry appears to have remained constant in relative terms over most of the recent past — at around 0.4 — 0.5 per cent of real GDP, essentially expanding at the same rate as the overall level of activity. The point of departure, however, is apparent in 1984/85, with the sharp increase in the relative contribution to GDP to 0.7 per cent. To place this figure in context (although stressing once again its nature as a very rough estimate), it is approximately the same size as the agricultural contracting sector (comprising shearing, topdressing and spraying and similar activities), marginally smaller than the forestry and logging sector (0.8 per cent of real GDP — although this excludes any processing or manufacturing based upon forestry products).

Table 4
Estimates of contribution to GDP

Year ended March	'Travel' Value added Nominal $m	Real $m	% GDP
1980	90.6	72.1	0.4
1981	108.0	71.9	0.4
1982	132.9	77.7	0.5
1983	134.9	69.0	0.4
1984	176.1	85.3	0.5
1985	273.2	132.3	0.7

Having established (very approximately) the relative size of at least part of the international tourism industry, a further issue is to assess its contribution to overall economic growth.

The increase in the size of the industry does not fully reflect the impact on the output of the economy, of an increase in tourism. Increased expenditure in the industry will give rise to second round effects that can boost the output of other sectors in the economy. In response to increased trade, the tourist sector will buy more inputs directly from other sectors, it will employ more labour whose additional income will be reflected in additional consumer demand, and it will expand its capacity, thereby increasing the output of the building industry and other capital goods producers.

Recently a detailed quantitative study which attempted to capture these effects over a medium-term time horizon was commissioned by the New Zealand Department of Tourism and Publicity.[1] The objective was to model the effects of alternative trends in tourism expenditure on activity, investment, employment and so

1 Business and Economic Research Limited 1984: *Macroeconomic Implications of Increased Tourism in 1990*. This study used a 53 sector 'input-output' model to assess the macroeconomic implications of alternative trends in the level of international tourism.

on using an input/output model of the economy. Although there are reservations with regard to the data, the study did produce results which were both plausible as well as generally consistent with a range of evidence on recent developments in the industry.

Using 1984/85 as a base year and 1989/90 as a horizon, the effects of alternative trends in visitor numbers were contrasted with a 'steady-state' or 'control' trend growth rate of 3.5 per cent per year. It was found that an increase over the trend rate of 3.25 per cent per year in visitor numbers could potentially provide an extra 12,000 jobs, representing an 0.8 per cent increase in employment. These jobs would not be confined to the industry itself, but would also be generated in related service areas. Other areas of the economy would also benefit because of the general stimulus provided by the extra tourist expenditure. Real GDP would be 0.8 per cent higher than it would otherwise have been by 1989/90, and the additional increase in real private consumption would be 0.9 per cent. The study also showed that a 6.5 per cent above trend increase in tourism numbers over the period would result in an additional 22,500 jobs by 1989/90, and additional real GDP and real private consumption of 1.6 and 1.8 per cent respectively.

These various measures of the size and contribution of the tourist industry generally show that, while recent growth has been rapid, the industry is still relatively small and therefore can made only a limited contribution to overall economic growth. Even with the 'high growth' assumption, the Tourist and Publicity Department's study shows that the contribution to the growth in GDP per year at best would be less than an average of 0.5 per cent. An average growth rate of 6.75 per cent would increase GDP by an average of 0.3 per cent per year.

Prospects for the Industry

The final issue to be considered concerns the prospects for growth in the number of overseas visitors and hence the industry's potential to contribute to economic growth.

The principal factors which research has shown to effect the growth prospects of the industry include: income growth in major source countries; the cost of international air travel; and the price competitiveness of the goods and services sold to tourists. In addition there are a range of 'non-economic' factors which can make a particular country or area a 'fashionable' destination.

In a longer-term perspective there is no reason not to expect continued trend growth in income levels, but this is of course subject to short-end medium-term cyclical fluctuations. Over the last two years in particular the growth in the New Zealand tourist industry has been part of a world-wide tourism recovery associated with an economic upturn in the industrial countries. This recovery is now at a fairly mature phase and the growth rate could moderate from current levels. Accordingly, underlying economic conditions will probably not be so favourable for continued rapid growth in tourist numbers.

Nevertheless there is the prospect that the real cost of air travel could fall. Crude oil prices have recently fallen sharply, and while it may be unwise to predict the price of oil for the next few years, there is at least some prospect that the price of aviation fuel will fall below the levels of the last few years. This in turn could result in a significant reduction in the cost of air travel, and hence in the total cost of a New Zealand holiday from long-haul destinations. Another factor that may be significant is deregulation in the air travel industry. Experience in the United States and elsewhere has shown that increased competition has resulted in lower prices and increased traffic. How the New Zealand tourist industry will be effected depends on the degree of deregulation affecting air services relating to New Zealand, relative to that which is occurring in relation to competitor markets. In the early 1980s, for example, there was a fall-off in the number of Australian visitors to New Zealand because of the increased availability of cheap airfares to South-East Asian destinations.

While the comparative cost of goods and services in New Zealand has been shown to be a determinent of tourism, this is unlikely to be an important factor over the medium-term provided that inflation falls to a level more in line with inflation in the major source countries. The latter stipulation is, of course, one of the Government's main economic objectives. Nevertheless in the short run there can be significant movements in the real exchange rate, and should this occur it would have the greatest effect on short haul arrival numbers as expenditure in New Zealand comprises a relatively large proportion of this category's total travel costs. In the immediate future, the recent strength of the New Zealand dollar against the Australian dollar and the higher rate of inflation in New Zealand could result in a slowdown in the Australian segment of the travel market.

Finally there are the non-economic factors. The international tourism market is a highly differential one. Each country is in effect offering a more or less distinct product that does not compete primarily or solely in terms of price. As social and cultural conditions change in countries around the world, the qualities and attractions of particular tourist destinations may become more or less desirable. Promotional campaigns can be important in developing competitive advantages, especially where they assist in building a perception that allows a country to occupy a specialised and fashionable market niche, or alternatively where they bring a little known tourist destination to the attention of a wider market.