Research

Economy Watch

5 March 2025

Tracking the Tourism Recovery

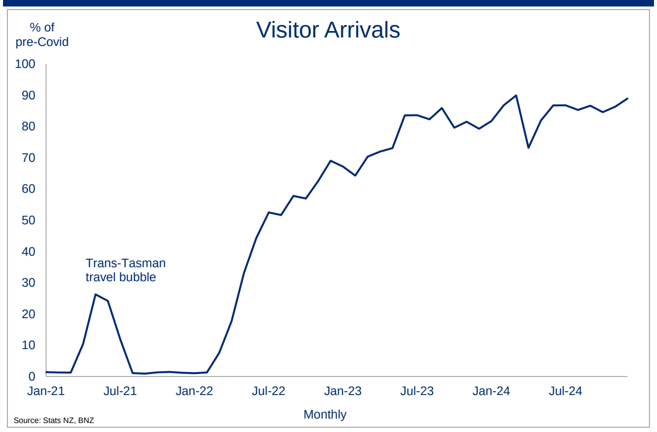
- **Government targets tourism to boost economy**
- **Visitor arrivals crawling towards pre-Covid levels**
- **Arrivals from China lagging behind**
- **Business visitors subdued**
- **Airline capacity to limit the speed of recovery**
- **Tourism to help narrow current account deficit**

Increasing international visitor numbers back to 2019 levels is an immediate Government focus in its endeavour to support economic growth. As tourism is NZ's second largest export industry (after dairy), its progress is vital to New Zealand's economic success. With this in mind, we take a step-back to assess just how the international tourism recovery is tracking at the moment.

Visitor arrivals are continuing their moderate recovery toward pre-Covid levels, rising to 88.9% of that mark in December. The initial bounce following the opening of our borders was dramatic but over the last two years expansion has been glacial. Real spending comparisons are also sitting just below 90% of pre-Covid levels. The value extraction from tourism should be the primary objective with volume growth only one part of this process.

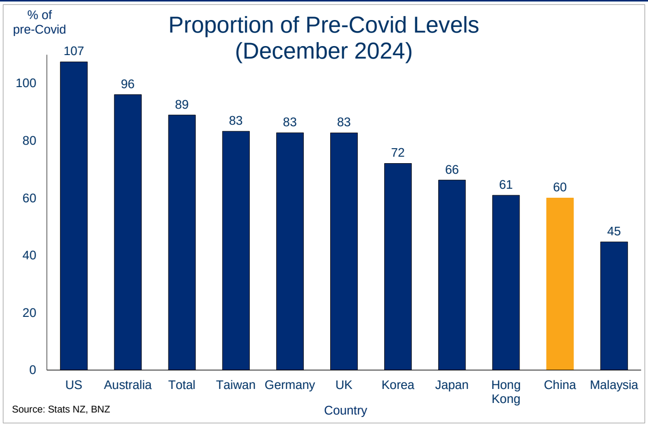
Looking at the details, two key areas which are holding back the overall tourism recovery are arrivals from China and business visitors.

Crawling back to pre-Covid



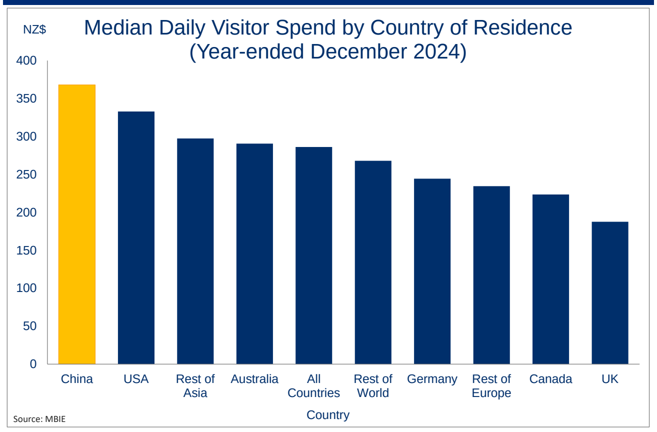
Arrival numbers from China are lower than most major source markets when compared to pre-Covid equivalents, at 60%. The relative lack of Chinese visitors needs to be seen in the context of total outbound tourists from China. In 2024, total Chinese departures averaged 66% of pre-pandemic levels. This suggests a significant chunk of the lower numbers to NZ might well have more to do with fewer departures out of China, in general, rather than NZ losing market share (although there appears to be some of that as well).

The breakdown



Economic factors are prompting many Chinese travellers to choose domestic tourism or more affordable destinations within Asia. Prior to Covid, group tour travellers accounted for around one third of Chinese visitor arrivals for both Australia and NZ. Anecdotal evidence suggests some NZ businesses who provided services to tour groups are no longer around. While we don't have more recent data for NZ, only 8% of Chinese visitors to Australia in the December 2024 quarter were on packaged tours.

China visitor spend per day high



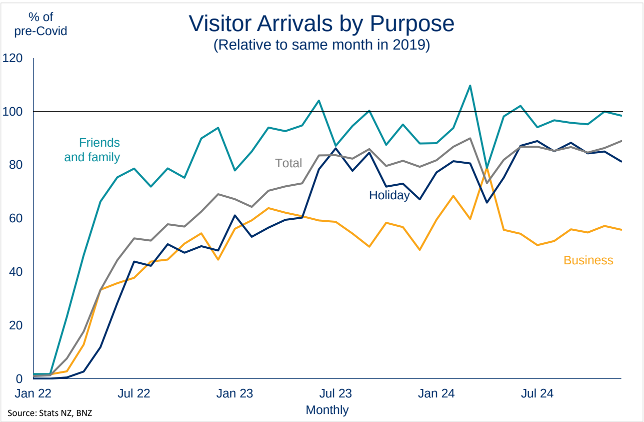
It's not just the number of visitors which matters, but also how much they choose to spend while in NZ. Of our key tourist markets, China had the highest median daily spend in the year to December 2024. However, there is an offset as arrivals from China stayed for fewer days on average than visitors from Europe and North America.

Business travel to NZ is the second area lagging the tourism recovery. Globally, this has been slower to recover than holiday travel. NZ's geographic isolation from the rest of the world has likely exacerbated this dynamic. Business visitors to NZ were subdued at just 55.7% of pre-pandemic levels in December.

The rise of virtual meetings and soaring travel costs have made traveling for work less financially viable. Indeed, the cost of international airfares in NZ's CPI has increased by 50% since the December 2019 quarter. Moreover, businesses now report their emissions. Reducing travel is often an easy way to reduce them.

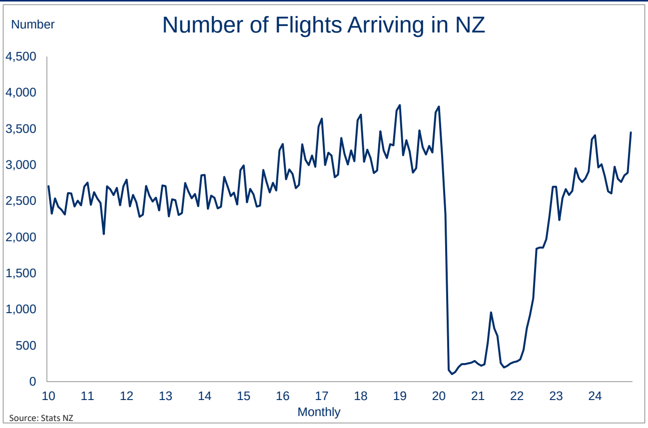
While the number of business travellers is relatively small, visitors travelling for work are more likely to spend on accommodation, transport and higher value restaurants compared to, say, those visiting friends and family. Reduction in both international, and domestic business travel, is likely contributing to hotel occupancy rates and rental vehicles remaining below 2019 levels. While not targeting business visitors specifically, the Government is hoping that new visa conditions which allow visitors to work remotely for an overseas employer will bring in more high value "long-term tourists."

Business visitors subdued



Another factor that could constrain any recovery in tourism is flight capacity. The number of international flights to NZ was 93% of pre-Covid levels in December. (Queenstown appears to be the outlier here, with international visitor arrivals at 140% of pre-pandemic levels.) Airlines both in NZ and globally have signalled capacity challenges for the next few years, driven by engine and supply chain issues. To the extent this restricts supply and pushes up global airfare prices, it will limit visitor numbers.

Airline connectivity improving



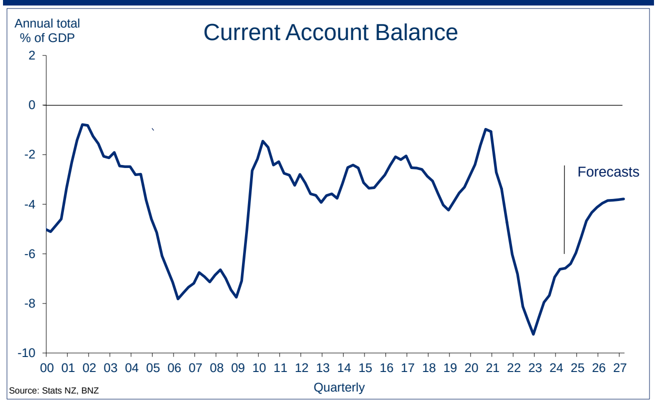
On the plus side, a weaker NZD can lead to slightly higher volumes of services exports, all else equal. Indeed, there is evidence that arrivals from the US have already been supported by recent US dollar strength. A lower dollar not only encourages more people to visit from offshore, but it can also lift visitor spending more generally. To the extent that visitors have a budget in their own currency, a lower NZD means it translates into more to spend when in NZ.

The success, or otherwise, of the tourism sector impacts not only New Zealand's growth profile but also has a key bearing on the state of our external accounts.

Historically, NZ has usually maintained a services surplus. However, the border closure during Covid led to a sudden decrease in exports of services and moved services trade into deficit. The return of international tourism over the last two years has largely reduced this deficit. This was a key driver of the narrowing of NZ's annual current account deficit to 6.4% of GDP in 2024 from its peak of 9.2% in 2022. This "improvement" has played a significant role in pacifying international rating agencies who had mounting concerns about increasing twin deficits.

Our economic forecasts are for the current account to continue to steadily narrow to around 4% of GDP over the next year. This includes further recovery in international visitor spending.

Narrowing underway



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