Article

COVID-19: Restarting our tourism sector

Studying the potential of a trans-Tasman 'bubble' and domestic tourism - 7 May 2020

Prior to the outbreak of COVID-19, our tourism sector's direct contribution to GDP was 5.8% and 8.4% of total employment. Since COVID-19, a sizeable amount of tourism spending has been curtailed. As we move towards Alert Level Two, it is important to shed some light on how New Zealand's tourism sector could recover.

As we look to the recovery phase, a trans-Tasman 'bubble' and domestic tourism could be part of the answer to the tourism sector's recovery. The Prime Minister confirmed on 04 May 2020 that the Government plans to allow travel between Australia and New Zealand, as both countries continue to stamp out COVID-19. This article explores the two options to support the tourism sector in the recovery phase.

Domestic tourism

We have mapped out all the spending that usually occurs in New Zealand alongside the spending of New Zealanders travelling overseas to provide a view of the total tourism expenditure (see *Figure 1*). Categorising tourism expenditure in this way sheds light on how outbreak control measures, as necessary as they are to save lives, impact various categories of tourism demand – and importantly, which categories could help lead the return of activity to the sector.

Figure 1 – Expenditure categories of visitors and New Zealanders in New Zealand, year to January 2020

Source: Deloitte Access Economics, Ministry of Business, Innovation & Employment (MBIE), World Bank

Requires Adobe Reader

International visitors and inter-regional visitors (i.e. New Zealanders who travel outside of their home region) together spent $26.6 billion in New Zealand. The nature of these market segments means that they have been essentially wiped out by restrictions on inter-regional travel (with the exception of essential workers) and the ban on non-resident arrivals.

Intra-regional visitors (i.e. New Zealanders who travel within their home region) spent $3.8 billion in the year to January 2020. The most stringent outbreak control measures, such as the 'stay local' edict, have eliminated even this important category of travel – which bolsters tourism expenditure for many regions.

If domestic travel is permitted at Alert Level Two, domestic travellers could lead the early stages of the recovery. Travel restrictions not only stop people from coming in but also stop people travelling out. However, this does represent an opportunity for regions to 'redirect' and 'retain' some of the expenditure that New Zealanders would have spent overseas.

This 'retained spending' opportunity could be worth up to $2.7 billion to Auckland, $1 billion to Canterbury, $0.9 billion to Wellington, and $0.8 billion to Waikato, based on previous spending patterns. *[In developing our analysis, we used the World* spending on domestic trips in the early stage of the recovery, in addition to the previous domestic spend. We also compare total pre-COVID spending in each region to the post-COVID spend opportunity – the aggregate of retained spending, and previous domestic spending.

Retained spending could offset the reduced revenue that would have come from welcoming international visitors and will certainly be a key feature of tourism recovery strategies. In fact, the retained spending opportunity for some North Island regions (in dark green) outweighs total pre-COVID spending. However, many people will have seen their income reduced (at least temporarily), which may limit their capacity for such spending on travel.

While a focus on domestic travel will help the tourism sector, it is important to understand that some regions will face a particularly difficult recovery. Retained spending is unlikely to offset much of the reduced revenue from international visitors for the South Island. Otago and the West Coast could see a 46% and 42% drop in total spending, respectively (in the lightest green). Auckland is not immune to this, with a potential 25% fall in total spending.

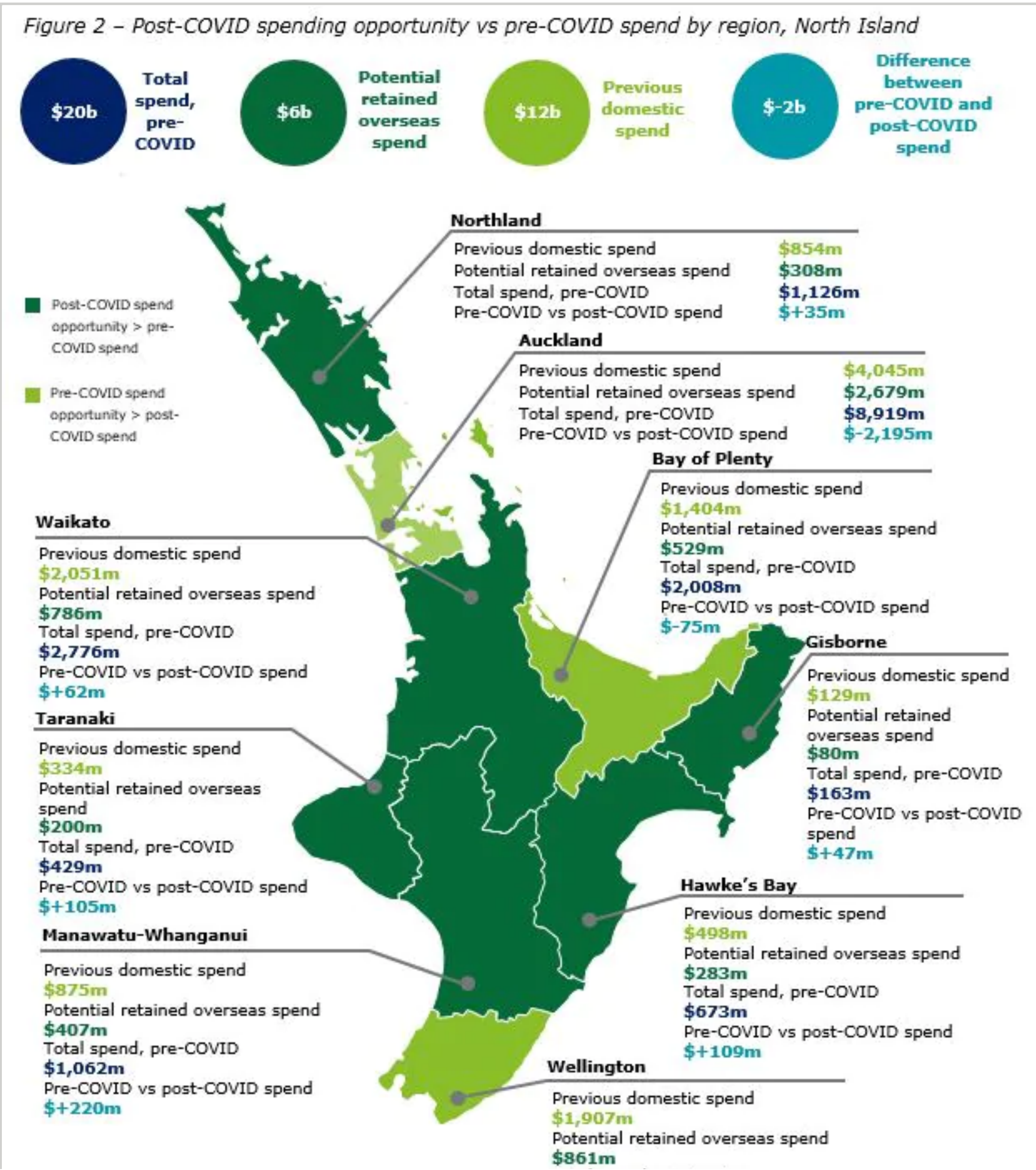
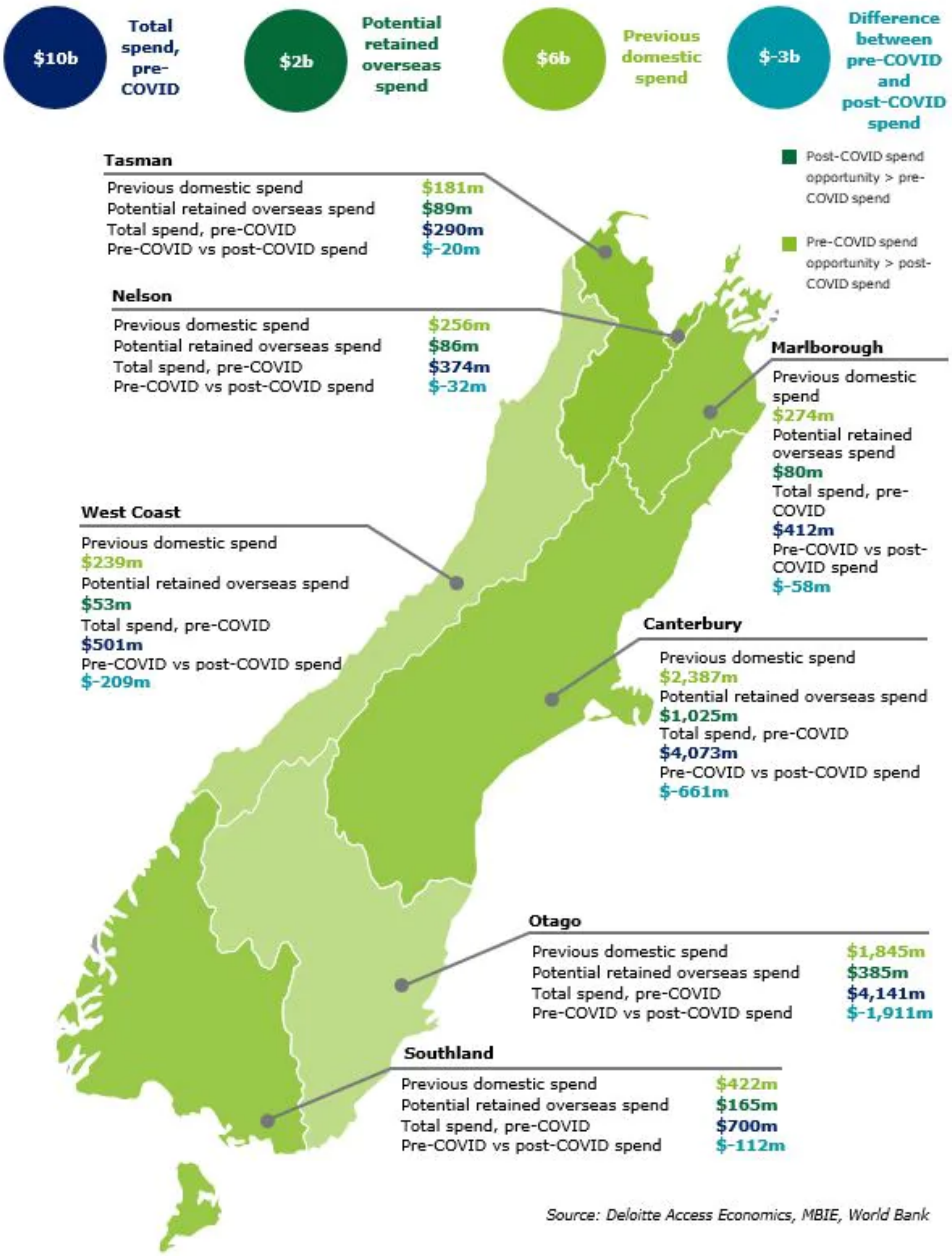


Figure 3 – Post-COVID spending opportunity vs pre-COVID spend by region, South Island



Source: Deloitte Access Economics, MBIE, World Bank

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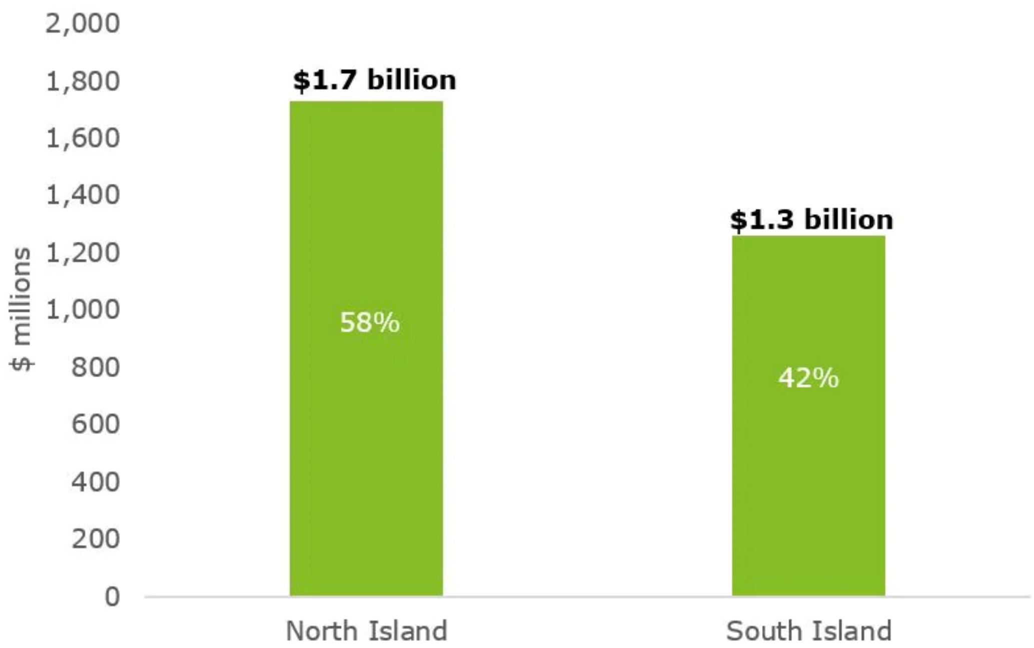
income constraints of Australians and their willingness to travel.

Figure 4 – Trans-Tasman 'bubble' spending opportunity, North and South Islands



Source: Deloitte Access Economics, MBIE

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Australia is New Zealand's largest international visitor market and their spending accounted for 23% of total spending by international visitors pre-COVID-19. Figure 4 shows 58% of spending by Australians took place in the North Island, while 42% occurred in the South Island, based on previous spending patterns.

Australia's tourism sector would also benefit; New Zealanders spent $2.6 billion in Australia in 2019. This bubble could be key to helping both countries' tourism industries get back on their feet.

Closing commentary

The economic landscape has changed and people will take a more cautious approach to spending as they look to rebuild or increase savings. This will impact New Zealanders' propensity for travel. There will also be shifts in visitor preferences and behaviours as travel resumes. However, there are reasons for optimism in the tourism sector. People will crave connection and want to revisit their favourite spots and discover new places and experiences - a trans-Tasman bubble and domestic tourism can deliver hope for both visitors and the tourism sector.

provide information about our services and provide contacts for relevant experts who can help you navigate this quickly evolving situation.

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