

EDUCATION CORNER: TOURISM AND ITS CONNECTION TO NEW ZEALAND'S COUNTRYSIDE

SUMMARY

Move over dairying – tourism is now New Zealand's largest export earner at \$14.5 billion in the year to March 2016. The boom in international tourists to New Zealand presents both challenges and opportunities to the farming sector.

Challenges include a lower correlation between commodities and the NZD as tourism becomes an even larger proportion of domestic economic activity; heightened competition for labour resources; biosecurity risks; and environmental tensions. As sectors become larger (and tourism is getting very large), they also become more significant in shaping policy.

We prefer to see the influx of international tourists as an opportunity for the farming and broader food and beverage sector. The two sectors complement one another. An already-large share of 27% of total international visitors in 2016 visited a farm or orchard when holidaying here and 20% visited a vineyard or wine-trail. In the same period, 65% of Chinese visitors stated they visited a farm or orchard. That's significant because much of the projected growth in tourism is expected to come from China. So cross-over is already occurring, but there seems to be a larger opportunity to build on this momentum.

There are multiple angles of opportunity, ranging from the direct selling of products to tourists through to providing unique authentic farming experiences, accommodation, education on where food comes from, creating new business relationships and even tourists providing short-term labour resources (subject to visa requirements). In many ways, a positive tourist experience in New Zealand represents a free source of marketing for the food and beverage sectors. Visitors leave and, all going well, then seek out New Zealand food and beverage products in their own home markets.

This means the tourism opportunity is much broader than generating additional income for the food and beverage sector alone. It's also about building on the intangibles and reputation of New Zealand's food and beverage products. This is important to create long-lasting impressions and to build brand equity to drive repeat purchases long after tourists return home. Even if only a small proportion of the estimated 4.5 million tourists expected to visit each year by 2022 are enticed into an agri-tourism experience it doesn't take many years to build up a loyal base of customers, especially when it's estimated New Zealand can only feed some 50-60 million people each year.

THE BIG PICTURE

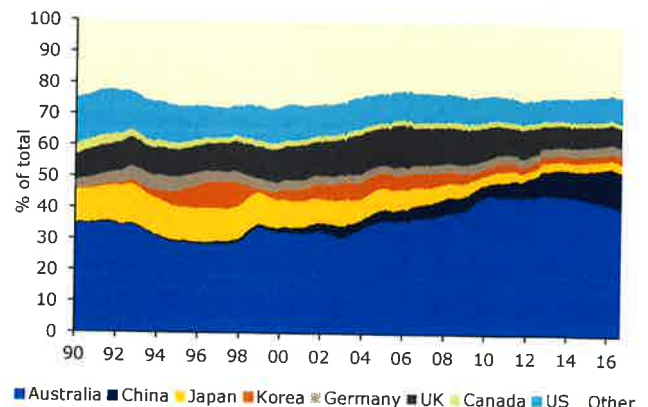
International tourism is a key industry. In the year to March 2016, international tourist expenditure totalled \$14.5 billion, representing 21% of total goods and services exports. It has once again passed dairying as the country's top foreign exchange earner after recording phenomenal growth over the past two years (up 40% since 2014).

In terms of sheer numbers, Australia remains the largest source of visitors, although the composition is changing. Australia currently accounts for 41% of total visitor arrivals, but its share has fallen from over 45% in 2012. China is second, at 12%, with its share having grown significantly from less than 5% just 10 years ago. The US, UK and Europe are also key source markets.

But in terms of total spending, the picture becomes more interesting. Australia's share of total visitor spending drops to 25%, as visitors typically stay more briefly and spend less than those from other countries/regions. On the other hand, Chinese tourist spending represents 17% of the total and spending has more than doubled in the past two years. On average, an Australian tourist spends around \$2,000 per person (excluding airfares), which is well below the averages of Chinese (\$4,750), US (\$4,550) and UK (\$4,900) tourists.

The level of the NZD certainly plays a role in determining how much visitors spend, but the shift to 'higher-value' tourists has contributed to the average spend per visitor overall lifting to \$3,400, which is up 26% over the past two years. It is both the sheer number of arrivals as well as this higher spend per visitor that has contributed to the strong growth in total international visitor expenditure.

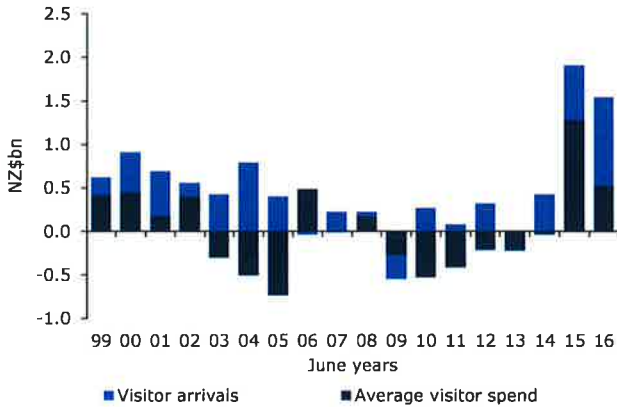
FIGURE 1. VISITOR ARRIVALS BY SOURCE COUNTRY



Source: ANZ, Statistics NZ

EDUCATION CORNER: TOURISM AND ITS CONNECTION TO NEW ZEALAND'S COUNTRYSIDE

FIGURE 2. CONTRIBUTIONS TO TOTAL VISITOR SPEND GROWTH

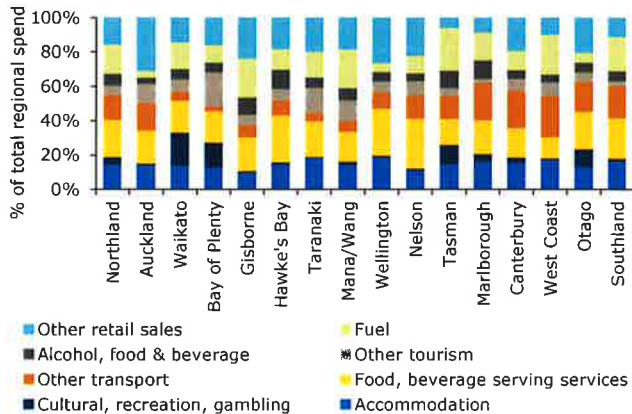


Source: ANZ, Statistics NZ

Visitors are also getting older, which is consistent with the higher average spend. The average age of visitors is now close to 41 years, up from around 38 years in the early 1990s. While in part this reflects the compositional shift in arrivals toward more Chinese visitors (who are slightly older on average), the average age of Australia and UK visitors has been trending higher too. The big exception is the US, where visitors have been getting younger on average, although at 44 years, they are still older than the average.

What do they spend their money on? In the year to December 2015, spending on retail sales (excluding food and fuel) made up the largest share of international visitor spending, at 23%. Food and beverage serving services also received a large share, at 20%, while accommodation made up slightly less than 15% of total spending. Food and alcohol-related retail spending was a relatively small share at 5%. Interestingly, as a share of total spending, food and beverage-serving services has been falling over the past seven years. This is likely to reflect

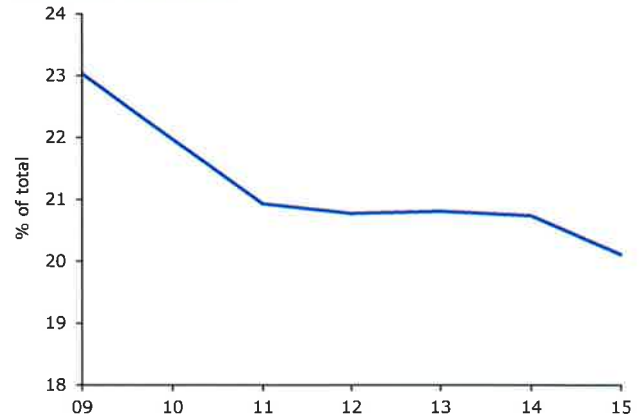
FIGURE 3. VISITOR SPENDING BY PRODUCT AND COUNTRY (EX AIRFARES)



Source: ANZ, Statistics NZ

that Chinese tourists (which have of course become a larger share of overall visitors) spend far less in this area compared with visitors from other countries. In 2015, Chinese visitors spent only 11% of their total spend on food and beverage serving services, instead spending a relatively higher share on non-food and fuel retail goods (35%) and accommodation (22%).

FIGURE 4. SPENDING ON FOOD AND BEVERAGE SERVING SERVICES

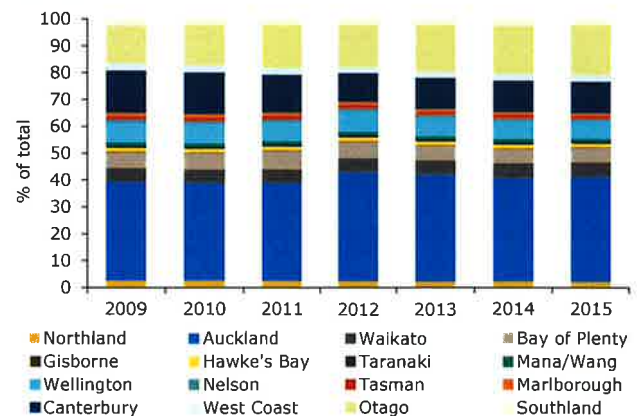


Source: ANZ, Statistics NZ

From a regional perspective, there are few surprises in where visitors spend their money.

In the year ended December 2015, 39% of total visitor spending was in Auckland, with Otago second at 19% (the Central Otago factor). The Auckland share has been relatively stable over the past seven years, while Otago's has grown, largely at the expense of Canterbury.

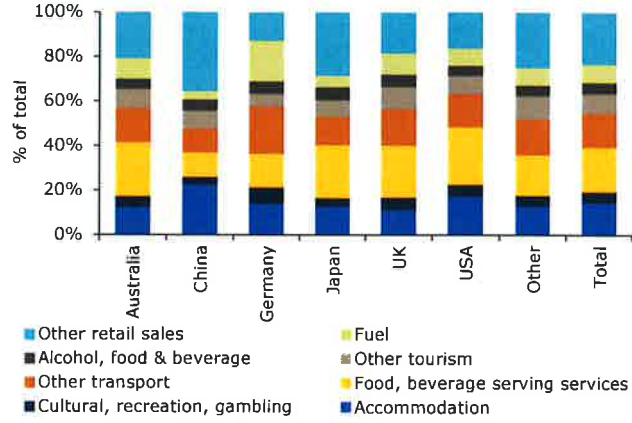
FIGURE 5. REGIONAL INTERNATIONAL VISITOR SPENDING



Source: ANZ, Statistics NZ

EDUCATION CORNER: TOURISM AND ITS CONNECTION TO NEW ZEALAND'S COUNTRYSIDE

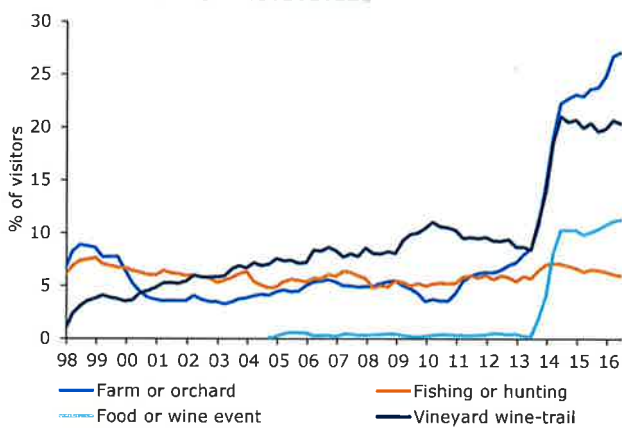
FIGURE 6. REGIONAL VISITOR SPENDING BY PRODUCT (EX AIRFARES)



Source: ANZ, Statistics NZ

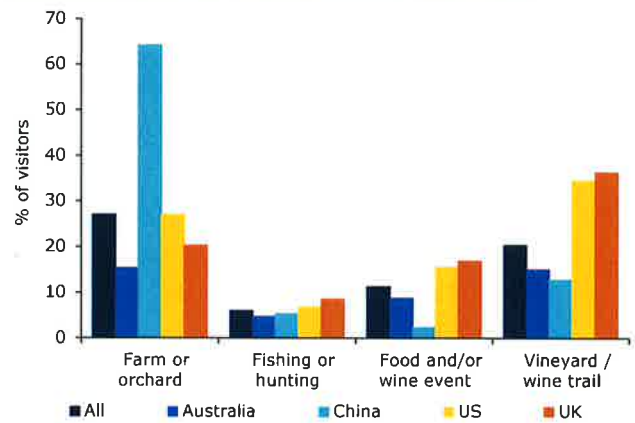
The penetration of agri-related tourism has increased considerably over the past couple of years. As a share of total visitors in the year to June 2016, 27% stated that they visited a farm or orchard, 11% attended a food or wine event, and 20% visited a vineyard or wine-trail. Back in the year to June 2010, these shares were just 3.6%, 0.4% and 11% respectively. Interestingly, close to 65% of Chinese visitors stated that they visited a farm or orchard in the year to June 2016, while visitors from the UK and US are much more likely to visit a vineyard or wine trail or attend a food and/or wine event. This suggests segmentation and targeting of message and services to the different markets is just as important when consumers visit, as well as when selling a product in their home market.

FIGURE 7. VISITOR ACTIVITIES



Source: ANZ, Statistics NZ

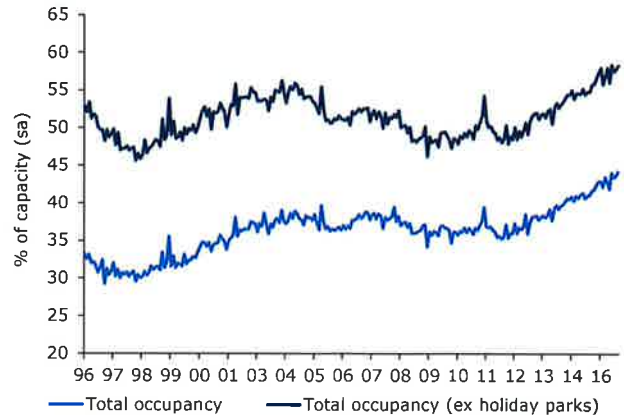
FIGURE 8. VISITOR ACTIVITIES BY COUNTRY



Source: ANZ, Statistics NZ

The tourism sector is a large employer. In the year to March 2016, over 188,000 people were directly employed in the tourism sector, or 7.5% of total employment. A further 144,000 were indirectly employed, taking total tourism sector employment to 13.2%. The food and beverage sector, according to the Ministry of Business Innovation and Employment (MBIE), employs nearly one in five New Zealand workers.

FIGURE 9. NATIONWIDE ACCOMMODATION OCCUPANCY



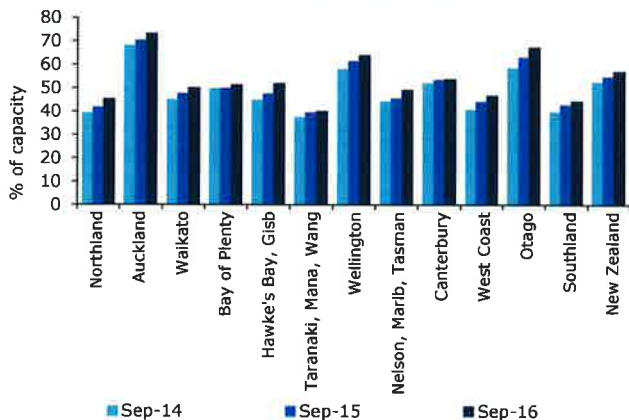
Source: ANZ, Statistics NZ

With regards to key tourism sector infrastructure, utilisation rates and capacity pressures are increasing. In September 2016, there were over 3,060 commercial accommodation establishments across the country. This has been trending a little lower over the past few years, having peaked at close to 3,400 in 2010. Excluding holiday parks, there are 2,660 establishments, and this has been trending lower too. Capacity, based on stay unit nights, is currently 0.7% lower than the same period last year (again excluding holiday parks). This has meant that occupancy rates have been rising,

EDUCATION CORNER: TOURISM AND ITS CONNECTION TO NEW ZEALAND'S COUNTRYSIDE

with the seasonally adjusted rate sitting at over 58% in September, the highest on record. Rising occupancy has been a nationwide phenomenon, but is particularly pronounced in Auckland and Otago. Over the past 12 months, occupancy has averaged 73% and 67% respectively (both records), although during peak periods it can get as high as 82% and 81% respectively.

FIGURE 10. REGIONAL OCCUPANCY RATES



Source: ANZ, Statistics NZ

WHAT COULD THE FUTURE LOOK LIKE?

The outlook for the tourism sector looks bright.

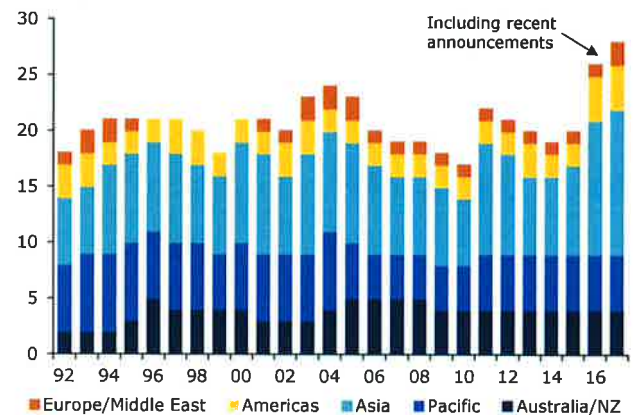
MBIE forecasts international visitor arrivals to grow at a decent 5.4% per year, reaching 4.5 million in 2022 (from 3.4 million now). This actually assumes that the pace of arrivals, which has been running at close to a 10% annual pace over the past two years, moderates going forward. But the near-term outlook looks especially strong (putting aside possible temporary disruptions caused by the latest central New Zealand earthquakes) as new airline routes and airline capacity should be strongly supportive of increased arrivals numbers. In fact, we estimate that the different number of international airlines flying to these shores will top 29 next year, which is up from 19 in 2014. There has been particularly strong growth in new Asian and North American carriers. History has shown that it is new airline supply that is the biggest driver of arrivals growth, given New Zealand's position in the Southern Ocean.

Most importantly, total visitor spending is also forecast to increase strongly. MBIE estimate that total international visitor spend (excluding airfares) could top \$16 billion in 2022 – a 66% increase from 2015's level. While increased visitor numbers are a big part of that, it is also assumed that visitors spend more per person on average, which will be influenced by the likes of the NZD, income levels, inflationary considerations, and also the composition of visitor arrivals. Interestingly, China is forecast to become New Zealand's most important market (by tourist

spend) within the next two years, with total spend reaching \$5.3 billion by 2022 – easily surpassing Australia.

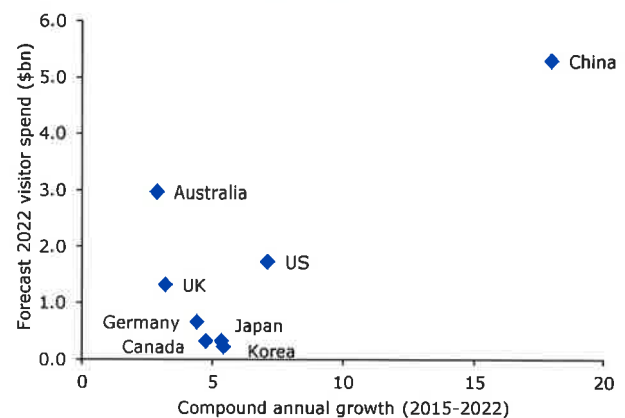
Tourism is a luxury good so its elasticity with respect to incomes is more than 1 (i.e. you spend more than a dollar of additional income earned on tourism activities). Considering a big chunk of Asia is growing around 5%, the mathematics look pretty good!

FIGURE 11. INTERNATIONAL AIRLINES FLYING TO NEW ZEALAND (EX CARGO)



Source: ANZ, Ministry of Transport

FIGURE 12. MBIE TOTAL VISITOR SPEND FORECASTS



Source: ANZ, MBIE

CHALLENGES AND OPPORTUNITIES FOR THE FARMING SECTOR AND BROADER FOOD/ BEVERAGE INDUSTRY

There are many angles to view how the farming sector and broader food/beverage industry can leverage off the positive outlook for tourism.

From a direct point of view, the food and beverage sectors domestically will obviously benefit from an increase in visitor spending.



EDUCATION CORNER: TOURISM AND ITS CONNECTION TO NEW ZEALAND'S COUNTRYSIDE

If the current shares of spending are assumed to remain unchanged, tourists are forecast to be spending over \$4 billion on food and beverage services and retail products by 2022.

The trouble is, these spending shares are unlikely to remain constant, especially if China's slice of the overall tourist spending pie grows as expected. Rather than holding overall spending shares constant, if country-based spending shares are assumed to remain unchanged, international tourist spending on food and beverage services and retail products could be \$300 million (7.5%) lower than under the status quo case above. This is because China's visitors currently spend less on these items than visitors from other regions.

This therefore presents both a challenge and an opportunity for the food and beverage sector.

If nothing is done, the food and beverage sectors will certainly still benefit from the direct increase in tourist spending, but it will get a smaller slice of the pie. The opportunity is about effectively extracting its share of the extra spend. Effective strategies should be implemented to either lift this area of spending by Chinese visitors, or look at alternative ways of leveraging or piggy-backing off the expected growth in Chinese visitor spend for the food and beverage sector. Of course, a focus on China should not come at the expense of visitors from other countries, but many of the thoughts below can be viewed as broadly appropriate for all tourists.

Other thoughts on the possible opportunities from more agri-tourism include:

- **Look at developing specialised stores or unique shopping experiences related to the New Zealand food & beverage sector.** Visitors already spend the greatest share of their budgets on non-food and fuel related retail goods. This is especially the case for Chinese visitors. Is the food and beverage sector effectively tapping into this? Examples could include more specialty stores in high-volume tourism thoroughfares and areas that stock only uniquely New Zealand food and beverage products. This can include a range of products, or focus on specific categories such as dairy, meat, honey, seafood etc. Equally there would seem to be greater opportunities to give tourists a controlled experience of the entire production process (growing, harvesting, processing etc) of specific foods and beverages that is then followed up with a shopping, dining, or other event experience. There are certainly some examples of this occurring, but with lifting tourism spending there feels like scope for more.
- **Tourists are often attracted to authentic local specialities on menus and when attending events.** So there is a need to showcase and market New Zealand's unique seafood, lamb and other dishes that have been the hallmarks of the country's cuisine for many generations. There can also be regional or cultural overlays, such as kiwifruit products in Te Puke, or Hawke's Bay lamb cooked in a hangi. But it isn't just about the one-off sale. These products then need to be available to purchase as a gift to take home, or delivered direct when a tourist arrives home (to ensure freshness and avoid the need to carry products when travelling that are often perishable). This drives repeat purchasing.
- **The way products are marketed and sold is changing. Consumers are increasingly being reached through the internet, mobile apps and social media, so an online presence is a necessity.** The ability of tourists to repeat purchase local specialities and other products once back in their home country is important when they want to relive their holiday experience. The changing nature of sale channels through the internet, mobile apps and social media is allowing this to occur more easily (both in time and cost) than has historically been the case.

A great example is tourists who visit a winery (which many do) and do a wine tasting. These customers can then be signed up to the wineries' online sale platforms to receive a case of product each year, as well as special offers. A step further would be wineries who offer a dining experience, with tourists being able to sign up to receive all the products available on the menu on a regular basis, including cooking instructions/demonstrations too. New Zealand is estimated to be able to feed only 50-60 million people per annum. So if even only a small proportion of the estimated 4.5 million tourists visiting our shores each year sign up to a direct sale channel it doesn't take long to create a significant new channel to market that can deliver higher margins back to producers and processors. This helps reduce the margin loss that often occurs in agri supply chains.
- **Develop entirely new products with the international tourist specifically in mind.** This could take a range of avenues, but should be targeted at the natural growth areas of Asia and North America. The two groups have quite different tastes, food preferences and cultural drivers.
- **Look at joint ventures with some top accommodation providers that give options of farm stays or eco-type accommodation.** This potentially helps alleviate emerging capacity constraints at key times of the year and tourist hot spots.

EDUCATION CORNER: TOURISM AND ITS CONNECTION TO NEW ZEALAND'S COUNTRYSIDE

- **Encourage or incentivise tour operators to include agri tourism experiences within their packages**, perhaps marketed as the 'all NZ' experience. This could include visits to farms, orchards, vineyards, tasting rooms etc. Dedicated farms could perhaps be 'developed' for this purpose. Encouragingly, the number of Chinese tourists visiting farms or orchards is already high. However, their penetration for food and wine events and vineyards is below average. It's the reverse for US and UK visitors.
- **Combining agri-tourism and adventure activities.** They have a natural fit and New Zealand is already well known as an adventure playground. So there would seem to be increased opportunities for the agri side to tap into those attracted by adventure activities by offering bush treks, visiting of caves, horse riding, bike riding, hunting opportunities and other such activities. This, alongside offering other services such as accommodation, allows new sources of income to be generated in certain situations.
- **Creating lasting authentic experiences that drive future product loyalty.** Cultural experiences, such as experiencing the great outdoors, New Zealand's natural scenery and Māori traditions etc need to be combined into all products and services being offered to international visitors. This can help drive brand loyalty and repeat purchases of New Zealand food and beverage products once they return home.
- **Look at ways to encourage visitors to broaden their travel beyond the traditional tourist hot-spots (i.e. Auckland and Queenstown).** Some of the smaller regions may be better placed to highlight New Zealand's unique primary produce, although this could require additional infrastructure and strategic planning. But it could have the added benefit of taking pressures off the traditional destinations during peak periods that are already struggling with capacity.
- **Offering opportunities for extended stays (subject to visa requirements) to help with day-to-day tasks on orchard or farms.** This could be particularly useful in providing some labour to help with seasonal requirements, completing certain projects (i.e. planting a wetlands), or on smaller/lifestyle type operations.

All up there seems to be a wide range of possibilities for agri-tourism and the food/beverage sector to leverage off increased international visitor spending.

Supply constraints look as though they will present the biggest challenge to the positive tourism outlook. MBIE emphasise that its forecasts are an estimate of 'unconstrained future demand' and don't take into account supply issues and capacity. Therefore it will be critical for the industry to continue to invest in accommodation capacity (which has been falling modestly of late) and other key infrastructure to ensure that these demand forecasts do not just become 'pie in the sky' type thinking. The recent damage to some key roading infrastructure in the upper South Island highlights the challenges and risks for the sector. Additional accommodation capacity is being built. MBIE estimate that large hotel developments, either under construction or in the planning stages, will add approx 2,670 beds over the next few years, with Auckland and Queenstown seeing the lion's share of this growth. But it is not just about 'more beds', it's about the right type of accommodation that leverages off New Zealand's attributes and our unique food and beverage products.

Other challenges include the likes of increased pressure on biosecurity. Obviously a growing number of visitors heightens the risk of associated diseases and pests entering the country. That's just a natural outcome from an increase in foot traffic. However, there is a chicken-and-egg element to this, as the infiltration of any diseases could put New Zealand's 'clean and green' image at risk and damage the attractiveness of New Zealand as a tourist destination. It emphasises the need for biosecurity infrastructure, capacity and technology to keep pace with the forecast growth in visitor arrivals. There will be some that question New Zealand's farming practices too. But we believe this should be seen as an opportunity to improve outsiders' understanding of food and where it comes from, rather than as a threat.