MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Economic impact of novel coronavirus on the tourism sector

Date:	7 February 2020	**Priority:**	Urgent
Security classification:	In Confidence	**Tracking number:**	2257 19-20

Action sought		
	Action sought	**Deadline**
Hon Kelvin Davis **Minister of Tourism**	**Note** contents prior to Cabinet	10 February 2020
Hon Peeni Henare **Associate Minister of Tourism**	**Note** contents	n/a

Contact for telephone discussion (if required)				
Name	**Position**	**Telephone**		**1st contact**
Karl Woodhead	Director, Tourism Branch	s 9(2)(a)	s 9(2)(a)	✓
Rebecca Heerdegen	Principal Policy Advisor	s 9(2)(a)	s 9(2)(a)	

The following departments/agencies have been consulted
Tourism NZ and discussions with the sector.

Minister's office to complete:

- ☐ Approved
- ☐ Declined
- ☐ Noted
- ☐ Needs change
- ☐ Seen
- ☐ Overtaken by Events
- ☐ See Minister's Notes
- ☐ Withdrawn

Comments

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Purpose

This briefing provides you with our initial assessment of the economic impact of novel coronavirus on the tourism sector.

Executive summary

Tourism is a significant part of the economy, but it is also spread across many sub- sectors (accommodation, food and beverage, transport, etc). The Chinese market s 6(a) . So, this event is not impacting tourism business across the board.

However, there are three destinations with significant exposure to the Chinese market – s 6(a)

Tourism is a very diverse sector, and therefore the impacts on individual firms will vary significantly. s 6(a), 9(2)(f)(iv)

s 9(2)(f)(iv)

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **Note** the economic impacts of novel coronavirus will be discussed at Cabinet on Monday (MBIE 2243 19-20 refers)

Noted

b **Note** the contents of this briefing, which provides further information on the tourism sector impacts

Noted

Karl Woodhead
Director, Tourism Branch
Labour, Science and Enterprise, MBIE

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Hon Kelvin Davis
Minister of Tourism

..... / ...... / ......

Hon Peeni Henare
Associate Minister of Tourism

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Scale and distribution of potential impacts on the tourism sector

Tourism is a significant part of the economy, but it is also spread across many sub-sectors.

1. Tourism expenditure is in the order of $41 billion year ended March 2019[1] (domestic and international), generating around $16 billion in GDP/direct value add. Chinese expenditure s 6(a)
s 6(a)

2. That expenditure is spread throughout the economy, including: fuel sales, general retail, food, and transport. This means, some parts of the tourism sector are less exposed to tourism specific shocks, though they will still feel their effects, as shown in the following table[3]. Tourism product ratio shows the level of exposure to tourism (international and domestic), where 1 is 100% exposure and 0.4 is just 40% of the sector business is driven by tourism.

Product	Total Supply $m	Tourism Supply $m	Tourism product ratio
Accommodation services	2,677	2,656	0.99
Food and beverage serving services	8,883	4,115	0.46
Air passenger transport	5,056	5,019	0.99
Other passenger transport	5,513	3,800	0.69
Imputed rental on holiday homes	759	759	1.00
Cultural, recreation, and gambling services	4,093	998	0.24
Retail sales – alcohol, food, and beverages	60,190	2,226	0.04
Retail sales – fuel and other automotive products	9,542	1,829	0.19
Retail sales – other	49,213	6,856	0.14
Education services	5,733	849	0.15
Other tourism products	45,086	2,875	0.06

3. With the exception of air travel and accommodation services, most of these sectors are not just focussed on tourism.

4. The Tourism Satellite Account (TSA) does not generate estimates by country of origin. However, if share of expenditure from the MRTEs is used as a proxy, we can assess the scale of potential impact by season.

   a. s 6(a)

   b.

[1] TSA, year ended March 2019 https://www.stats.govt.nz/information-releases/tourism-satellite-account-2019
[2] Source: Monthly Regional Tourism Estimates (MRTEs) MBIE, note these exclude Airfare costs, education and holiday homes
[3] Extracted from Table 13, TSA

c. s 6(a)

5. s 6(a)

6. The above analysis all relates to expenditure over the year. While we can't reasonably add in further assumptions about the impacts specific to peak season for each sub-sector, it is worth noting that across the year ended November 2019, s 6(a)

Impacts across New Zealand will vary significantly

7. Tourism expenditure centres around key destinations in New Zealand, s 6(a) Expenditure is shown in the following table, with Nelson included as a comparator (an area with less exposure)[4].

s 6(a)

8. s 6(a)

Tourism is a diverse and diffuse sector, and therefore the impacts on individual firms will vary significantly

9. As noted above, tourism revenues accrue across the economy – both sectors and geography. This diversity is also reflected in the way the sector operates. This variation needs to be taken into consideration when considering how best to support the sector through this period.

[4] Source MRTEs

Large firms may be more resilient, but smaller firms may be less exposed

10. There are substantial companies involved in tourism – including hotel chains, restaurants, and attractions. Some are owned overseas (many hotels), some operate as local franchises (some retail, fast food, rental car companies, grocery stores), and some are domestic firms that have grown over time. TIA membership includes over 920 firms that could be classed as large (by turnover or staff)[5].

11. There are, of course, also a large number of small businesses involved. TIA has around 580 members with 10 or less employees (noting that smaller firms are likely to be under represented in the membership).

12. The scale of firms will affect their resilience, however, it is also likely to be linked to their exposure. s 6(a)

13. s 6(a)

14. Businesses not solely reliant on tourism, such as restaurants and general retail will likely see some impacts on revenue, but will likely be more resilient.

Some firms will have flexible cost structures

15. Businesses for which costs are closely linked with demand, such as service oriented firms, will be able to scale costs relatively easily. This may mean not hiring casual / seasonal labour, or diverting resources to other activities (for example, transport services can be applied to a range of activities). s 6(a)

For others, a 5% drop in revenue will be the difference between profit and loss

16. For those with less flexible cost structures, and depending on their exposure, this event could be sufficient to go from profit to loss. For some firms who were already looking at a leaner season due to slower growth, it could be a substantive shift in their financial position.

Seasonality will be a factor in firm exposure

17. February is peak season s 6(a) For many firms this will be the period in which they make the profit that enables their business to operate through the year. Queenstown firms are less exposed in this regard, with a strong winter season; other locations are almost solely reliant on summer visitors.

Some firms are also coping with other adverse events

18. Other adverse events this season will compound the effects of novel coronavirus on tourism businesses, for example the flooding in southern New Zealand this week. We will continue to monitor the situation.

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[5] TIA is the sector's peak body, and while membership is not compulsory, it does cover around 85% of sector turnover, and has 1638 members.

[6] s 6(a)

Market dynamics

19. As noted above, there will already be some firms that would have been struggling this summer with slowing growth in visitors. Distinguishing between normal firm movement within the market and the effects of the coronavirus will be difficult.

20. Supporting struggling firms may also not align well with creating a more sustainable sector, one that is willing and able to invest into its communities, conservation, and staff; and mitigate its impacts on the environment. Using tools that are likely to lift all boats, such as enhanced marketing activities, will be less distortionary.

s 9(2)(f)(iv), 9(2)(g)(i)

Conclusions

s 6(a), 9(2)(f)(iv), 9(2)(g)(i)