TE TANGO AKATEREANGA MONI O TE IPUKAREA
MINISTRY OF FINANCE & ECONOMIC MANAGEMENT
ECONOMIC PLANNING DIVISION

MEDIA RELEASE

The New Zealand economy tipped over into recession in the three months ended March 2023 (Statistics NZ). MFEM has been thinking about what this means for us here in the Cook Islands.

Chief Economist Sally Wyatt says, "It can be hard to unpick the effects of recession in tourism markets versus other drivers of tourism behaviour, like flight costs, marketing programs and seasonal preferences. Slower economic activity in New Zealand translates into slightly lower tourist arrivals and tourism spend than would have otherwise have been the case. Surprisingly, this negative impact is muted as travellers tend not to forgo a sun-break and instead appear to choose closer and cheaper destinations when their finances are tight. For example, kiwis might choose Rarotonga instead of going to Europe or the USA for a break."

During the preparations for the May 2023 Budget, MFEM modelled how a slow-down in tourist arrivals could impact on our fiscal position. We do this every year, as part of our risk management approach. We found that if there was a 5 per cent decrease on the forecast for visitor arrivals for the next five years, relative to expectations, tax revenue would fall by $6.7 million per year by 2026/27. This would reduce the Cook Island Government's ability to spend. The impact on GDP of a 5 per cent reduction in arrivals is substantial, with a reduction of 3.3 per cent in 2026/27. However, this is a pretty extreme scenario!

MFEM economists note that New Zealand has only narrowly met the technical criteria for a recession – and that the economy there is showing good signs in terms of export growth for example.

The best approach to managing risk is to plan for it. The biggest risk to our economy is a tourism slow-down. To plan for this risk we will continue to diversify markets, support Tourism Cook Islands to evolve the experience elements and quality performance of the destination so it out-competes competitors in the event of a financial crisis.

MFEM and Tourism Cook Islands have put a lot of effort this year into tourism diversification. With multiple flights per week from Sydney starting this month, the Australian market is expected to increase to 18 per cent of the total market for 2023/24, with New Zealand falling to 71 per cent. Links to the Northern Hemisphere through Hawaii and Tahiti lead to the North American and European markets. This provides us with a little bit of extra comfort that whatever happens in New Zealand, we will still have tourists arriving here and spending their dollars.