

SURVEY OF SCREEN PRODUCTION IN NEW ZEALAND 2004

PREPARED FOR:



With funding support from:

**INVESTMENT NEW ZEALAND
THE NEW ZEALAND FILM COMMISSION
NZ ON AIR
NEW ZEALAND TRADE AND ENTERPRISE**

COVERING TAX YEAR APRIL 2003 – MARCH 2004

1. Introduction

SPADA has just released its survey of Screen Production in New Zealand for the year ending March 2004. This is the last of these surveys, which started more than a decade ago.

The industry started this survey as an advocacy tool to demonstrate the size and economic contribution of the screen industry in New Zealand, building up data to create a consistent, reliable picture of industry growth and underlying trends and indicators.

From the year ended March 2005 the screen production sector will be covered by an official Statistics New Zealand Survey. We hope that it becomes a key resource for the industry as well as government.

To mark the end of this series, NZIER was asked to prepare a brief commentary taking a longer term perspective of what we have seen in the past and what this may indicate for the future of this sector.

The NZIER commentary that follows on overall trends shows a doubling of the baseline of total production financing from the first half of the decade of the survey, relative to the second. The average annual level of production financing has more than doubled. The 2003/4 tax year covered by this particular survey shows a trough, but reflects more of a "blip" year than a long term trend, with some major productions in development rather than production.

As the trend analysis shows, the 2004/5 year that follows the period accounted for by this survey is likely to show levels of production financing that are similar to the peak years of 2000 and 2001 when *Lord of The Rings* was in full production. Looking further into the future, current indications are that 2006 is likely to also show a slow down for the industry in terms of production financing.

SPADA extends its heartfelt thanks to all companies and individuals who have participated over the eleven years of this industry survey on a voluntary basis.

We also sincerely thank the long term supporters and funders of this industry driven screen production survey: Investment New Zealand, The New Zealand Film Commission and New Zealand On Air. We pay tribute to all of those individuals who have put so much time and effort over the years into this trailblazing creative industries economic statistics survey.

A handwritten signature in black ink, reading "Penelope Borland". The signature is fluid and cursive, with the first name "Penelope" and the last name "Borland" clearly legible.

Penelope Borland
Chief Executive
Screen Production and Development Association

2. Survey Features: NZIER Commentary

Economic perspective

NZIER's approach has been to look at the broad picture painted by the data, rather than making a detailed analysis of the numbers. Our focus is on what the trends reflect in terms of the pattern and sources of demand for screen production services in New Zealand, and how the capacity and capability of the local industry has evolved over the ten years covered by the SPADA data.

On the demand, or revenue side the industry is susceptible to variation in demand. In the last 10 years, annual peaks and troughs in activity have included a 60% rise in 2000 and the fall of over 40% in 2004. Indications are that 2004/05 the year following the current survey period will again be a peak year.

The underlying structure of the sector is an interaction between the "baseload" of domestically driven and funded activity and the lumpier and generally much larger offshore funded feature film projects. The latter are inevitably more occasional and 'landed' on a more one-off basis.

Ten year trends

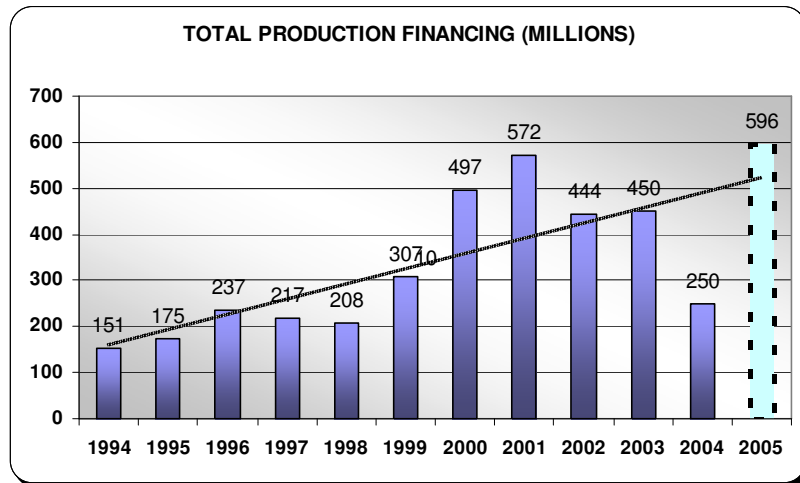
As with any data series, apparent trends depend very much on the choice of base period. To gain a more robust view we have looked at total production financing – seen as the key indicator from the SPADA data – in terms of three contrasting periods since the mid-1990s. Two of these are covered by the data and the other is partly prospective.

Over 1994 to 1998 there was a gradual upward trend in the figures but no dramatic changes. The ensuing years, however, saw significant increases with *The Lord of the Rings* and other internationally financed productions being made here. The average annual level of production financing has more than doubled. The average for the years 1999-2003 inclusive was (at about \$450 million) more than twice the equivalent figure (about \$198 million) for the period 1994 to 1998.

Figure I results from estimating the trend line for the period 1994-1998 and then projecting it forward. Using that approach, the trend projection for production financing in 2004 would be well above the \$240 million actually recorded. However, informal evidence suggests that the 2005 data will confirm the trend line using production information relating to large scale film and TV projects and NZ driven feature films alone.¹ The baseload of NZ television at the same level as 2003/04 would be \$160m bringing a conservative projection for 2004/05 to \$600m excluding commercials.

Figure I: Trend analysis

\$ million



Source: SPADA, NZIER

In absolute dollar terms the SPADA data indicates that much of the fall between 2003 and 2004 was accounted for by a decline in feature film work. In addition these 2003/4 figures contain no information regarding the commercials sector which on previous year's figures would have accounted for some \$50 million or over half of the drop indicated by the data.

¹ In 2004/05 *King Kong*, *Lion Witch & The Wardrobe*, *Power Rangers*, *Boogeyman*, *Hercules*, *Perfect Creature*, *The World's Fastest Indian*, *River Queen*, *Fifty Ways of Saying Fabulous* and *Number 2* all went into production.

Prospects

In 2002, NZIER was asked to look at future (film production) scenarios as part of its examination of the impact of *The Lord of the Rings*² on the local industry.

In developing these future scenarios, we were conscious of the unprecedented size of *The Lord of the Rings*, even in international terms, and effectively assumed it away. Further, and taking into account the significant variability of activity, we did not attempt to produce detailed year by year figures, but rather project annual averages for a 10 year period.

These were produced several years ago but we would still adopt the same approach. There has been no change in the underlying process by which internationally financed film making opportunities reaches New Zealand – which is usually an individual decision relating to the character of the specific film and what is on offer locally at the moment in terms of local screen production talent and facilities. So we remain confident that activity will be on a broad upward trend, taking say a 5 year view, albeit with the probability of peaks and troughs as in 2001 and 2004.

As noted above, evidence to hand since the year covered by the survey material included here suggests that there has been a lift in local production activity and several overseas productions in the year to March 2005.

The industry is such that there is no getting away from international and local market volatility. The appropriate and observed response of the New Zealand participants is to continue to be flexibly organised. This allows them to manage through quieter periods, and then quickly and effectively respond when new internationally driven opportunities arise, while retaining access to the quality skill bases to deliver competitive services.

The growing internationalisation of New Zealand's screen production industry, in a global industry characterised by mobility, and intense competition, will continue to present substantial opportunities, but also inevitably, major challenges.

² "Scoping the Lasting Effects of *The Lord of the Rings*". Report to the New Zealand Film Commission, April 2002; and "Capability study: The New Zealand Screen Production Industry". Report to Industry New Zealand, February 2003.

The magnitudes of year to year variations in demand and revenue may increase over time, and, in turn, bring or intensify the difficulties in retaining in New Zealand a critical mass of several of the core competencies needed to meet market demands. But the base of skills here has definitely broadened and deepened since the late 1990s, and most of those resources would still be available to the industry here, even if employed from time to time overseas. Further, there has been some significant investment in infrastructure which has enhanced the credibility of our screen production industry offshore.

In the international market, the New Zealand screen industry's position will be underpinned by ongoing relationship-building and associated marketing efforts both by individuals with their own networks, and more generally by the various public agencies that have this role as part of their mandates.

7th July 2005

NZIER is a specialist consulting firm that uses applied economic research and analysis to provide a wide range of strategic advice to clients in the public and private sectors, throughout New Zealand and Australia, and further afield.

Authorship

This report has been prepared at NZIER by John Yeabsley, Ian Duncan, and Alice Wang.