How big is the tourism industry?

Putt

Visitors play an important role in bringing business to a number of New England communities.

By Kristin Lovejoy
Photographs by Kathleen Dooher

ing out the welcome mat

At any given moment, travelers all across New England are also satisfied customers. Perhaps they are canoeing in Acadia National Park, or meeting with a Boston client, or honeymooning in a Vermont bed-and-breakfast, or participating in a conference at an area university.

Wherever they are, they are not the only ones who are happy that they are there. Local business owners and policymakers are also glad to have them visiting—and leaving money in the local economy.

State and local governments spend millions every year to bring visitors into their region. They support visitors' bureaus, launch advertising campaigns, and subsidize major investment projects designed to entice visitors. In New England, funding for state visitor bureaus has ranged from about $1.60 per Massachusetts resident to over $9 per resident in Vermont. And projects such as the Massachusetts Museum of Contemporary Art in North Adams, the new convention center in South Boston, and the proposed Harbor Heritage Museum in Providence have all been channeled public money in hopes of boosting traveler flows.

Yet, despite the obvious interest in enticing visitors, both in New England and elsewhere, pinning down the size and economic impact of visitors to an area is more complicated than one might think. In New England as a whole, the economic impact of visitors seems to be about the level of the national average. But in certain areas, visitors play an especially important role in bringing business to the local community.

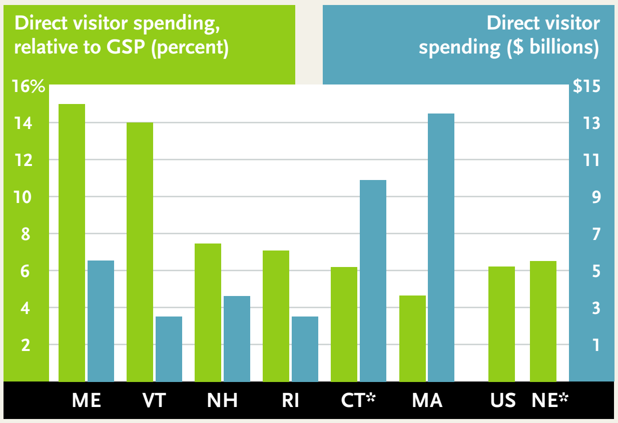
MEASURING THE IMPACT

What makes catering to visitors so popular as a tool of economic development is that it functions like an export—visitors bring in spending that otherwise would not be part of the local economy. Travelers to an area, including both leisure and business travelers, spend not only on hotels, taxis, and entertainment, but also on clothes, dry cleaning, sunscreen, and a host of other items—all while requiring fewer local government services (such as schools) than do residents. And visitors tend to spend more extravagantly while they are away than they would at home. In addition, the effect of each dollar spent by a visitor is amplified when it is respent locally, such as when a restaurant buys lettuce or paper cups from a local wholesaler, or when a hotel manager uses his or her salary to purchase clothing or childcare from local businesses.

Sales to visitors function like exports, bringing outside money into the

Out-of-town spenders

Visitor dollars have the greatest economic impact in Maine and Vermont, where travelers are numerous and where there is less overall economic activity.



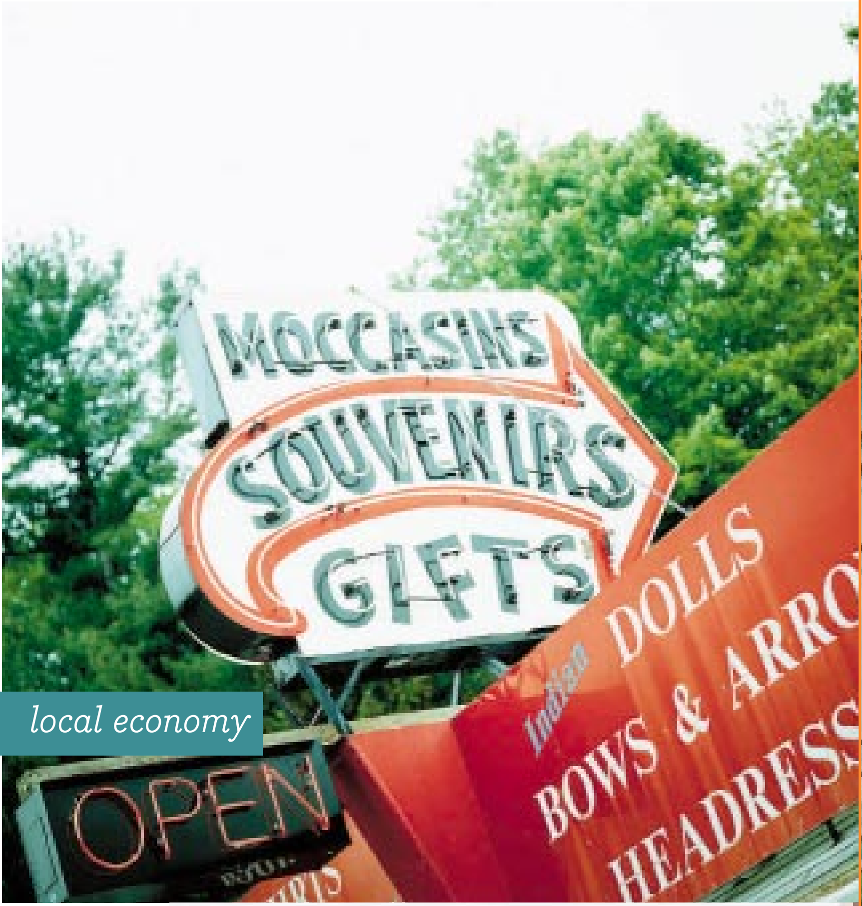
* All data are for 2000 except CT, which is for 2001

SOURCES: Bureau of Economic Analysis; Tourism Industry Association of America; Connecticut Center for Economic Analysis; Maine Office of Tourism; Massachusetts Office of Travel and Tourism; Institute for New Hampshire Studies, Plymouth State College; Office of Travel, Tourism, and Recreation, University of Rhode Island; Vermont Tourism Data Center

But sizing up the overall impact is tricky. There is no easy measure of how much money travelers spend, since many of the goods and services visitors buy are also purchased by local residents. Industry statistics (such as by SIC or NAICS code) are derived from businesses—such as hotels, restaurants, or retail establishments—that report overall revenues, but do not separate "visitors" from local customers. And deciding whom to count as a visitor is not obvious. Should it include someone coming from the next town? Two towns over? The next state? Should it include day trips such as a Worcester school's field trip to Six Flags, or a Lovell, Maine resident shopping 20 miles away in North Conway, New Hampshire outlet stores? In addition, the impact of visitor spending on local employment is also difficult to assess; it requires figuring how much the initial expenditure "multiplies" into other local spending, and then estimating the number of jobs that result.

The best way to measure the impact of visitor spending is to use surveys to determine the amount and type of goods that travelers tend to purchase, and then to estimate the portion of output visitors support in key industries. The U.S. Bureau of Economic Analysis (BEA) defines a visitor as anyone who travels outside his or her usual environment—at least 50 to 100 miles away from home—for business or pleasure, as well as anyone who stays overnight in a hotel (and excluding people such as migrant workers and military personnel). They estimate that on average, these travelers purchase about 18 percent of the goods produced at eating and drinking places, 27 percent at sports events, and 100 percent at hotels and lodging places nationwide. In 2002, visitors in the United States spent about $380 billion in direct spending—such as on airlines and restaurants—which generated an additional $330 billion in sales indirectly—such as on fuel for airplanes or food for restaurants. In 1997 (the BEA's most recent estimate), the industry contributed 2.1 percent of GDP and generated 4.5 million jobs, or 2.9 percent of total U.S. employment. Estimates from tourism associations put the figures even higher.

These measures suggest that visitors generate a fair amount of economic activity in the U.S. economy. According to the BEA's 1997 figures, if travel-supported businesses were a separate industry category, the value generated by the industry as a share of GDP would rank below that by a number of major sectors such as durable manufacturing (9.5 percent) and business services (4.8 percent), but above other sectors such as chemicals (2.0 percent) and legal services (1.3 percent). In employment, travel again would rank below workhorse sectors such as health services (7.1 percent) and business services (6.8 percent), but above food stores (2.4 percent) and banks (1.7 percent). The new NAICS "leisure and hospitality" category includes all arts, entertainment, recreation, accommodations, and food services industries—industries supported by many more than just travelers, accounting for a full 9 percent of nonfarm employees nationwide.



local economy

Out-of-towners purchase travel-specific items, such as hotel rooms and souvenirs, as well as ordinary goods, like bus fare and Tylenol.

New England draws about 109 million visitors annually, including roughly 4 million from overseas.

The effect of each visitor dollar is amplified when it

People spend more extravagantly while away than they would at home—for example, 36 percent more on meals out, according to a Vermont restaurant survey.

Getting the most bucks per bang

Who are the best guests? In general, an area will get the most out of visitors that diversify, supporting many different types of businesses while in town. Someone who stops for the night in a Connecticut hotel on the way to New York, for example, will be the most valuable to the local area if he or she also buys dinner, fills the gas tank, and maybe even purchases a pair of shoes or visits a state park to break up the drive. Travelers tend to spend more on lodging than on anything else, but even visitors who stay with relatives can be a boon if they eat out, buy local products, or tour museums while in town. On the whole, those who come from far away and do not know anyone in the area are likely to spend the most—they stay longer and require more services while visiting.

In addition, certain visitor-supported businesses go farther than others in providing local economic benefits. Vermont businesses, for instance, earn the most from winter visitors, many of whom are enjoying pricey ski getaways, even though more people visit Vermont in spring and summer than in winter. Winter visitors spent an average of $280 per trip in the 2000–2001 season, about 38 percent more than visitors spent the rest of the year. Ski resorts and other high-end facilities tend to support a more specialized workforce, which means better pay for the local residents who fill the positions.

Gaming facilities also can reap large benefits for the local economy because they typically contribute tax revenues to the state. However gaming may also result in the need for greater services such as police and trash collection. For example, the Connecticut Foxwoods and Mohegan Sun casinos contributed $370 million to the state in 2002. They also are one of the few amenities a locality can fabricate if it doesn't already have the museums, universities, or scenery that typically attract visitors.

But hosting a major airport hub brings more benefits to the local economy than any other kind of travel business, according to Louis Abramobitz of the Travel Industry Association of America. "Others

don't even come close," he says, mainly due to the high wages offered to pilots and other skilled workers that may be based there. But as an origin-and-destination airport, Boston's Logan Airport employs only about a third as many people as one that is a hub for one particular airline. For this reason, Logan's best contribution is probably in the transportation services it provides, rather than as an employer. Since no one airline dominates its business, Logan can keep the market for its terminal space competitive, which means fewer barriers for low-fare airlines, and the ability to stay strong even as individual airlines come and go—which is important for business and leisure travelers who use the airport to get here.

TRAVEL IN NEW ENGLAND

Every year, New England draws about 109 million visitors, including about 4 million from overseas. These visitors come for many different reasons. The region is the site of numerous conventions, conferences, and retreats, and New England firms with professional ties elsewhere draw a steady flow of business travelers for regular meetings and collaboration. Academics come to visit colleagues at the area's many universities, and university students attract visiting family and friends. Others come to catch a glimpse of the fiery colors of New England's renowned autumnal foliage, or to enjoy the region's other natural attractions, such as challenging ski slopes and the Cape Cod National Sea Shore.

is respent locally

All these visitors can have a big impact on local businesses. In fact, travel trends are likely to have a greater impact at the local level than nationally, since much travel spending is simply geographically displaced spending that would normally occur elsewhere in the country. For example, a family may buy dinner at a Cape Cod restaurant, and support jobs in the area, instead of buying dinner at home in Pennsylvania. But if they decided to stay home, the money spent at home would support Pennsylvania jobs instead of Cape jobs. Though the difference may be unimportant for the national economy, there is a big difference to a Cape restaurant owner whose livelihood depends on summer tourist traffic.

But the regional impact is even harder to assess because the available data on visitor spending in smaller geographic areas are limited, even though the magnitudes may vary greatly. Visitors to the White Mountains may spend differently than those to Providence, for example, and both may spend differently than visitors across the nation overall. Determining the multiplier effect for a small geographic area is also a challenge because the smaller the region, the more likely it is that economic activity will "leak" out to other areas, making accurate measurement difficult.

Nonetheless, regional and state tourist bureaus make an effort to get some sense of the impact that visitors have on the local economy. Looking at the region as a whole, New England seems no more or less dependent on travelers than the rest of the country. In 2000, business and leisure travelers spent about $38 billion in New England. This measure of total expenditure (more inclusive than the BEA's measure of value added) is the equivalent of 6.5 percent of the gross regional product, about the same proportion as in the rest of the nation, according to national expenditure estimates by the Tourism Industry Association of America. And the lodging sector—a good measure of visitor activity since it is closely and exclusively linked

Measuring up

Figuring the importance of travelers to a state and comparing the contribution across states is made more difficult by issues with the available spending data.

Visitor spending in a state measures the sales of all goods and services provided by hotels, restaurants, and other local firms to visitors to that state without subtracting out the value of the inputs that the hotels and restaurants purchase from other businesses. For example, it counts total restaurant sales but doesn't take away the cost of food and equipment necessary to produce the meals they serve. Thus, it does not represent the dollar contribution of these firms over and above the cost of the inputs they purchased. By contrast, value added measures of the output, as calculated by the BEA, and measures of overall gross state product (GSP) do net out purchases from intermediate suppliers.

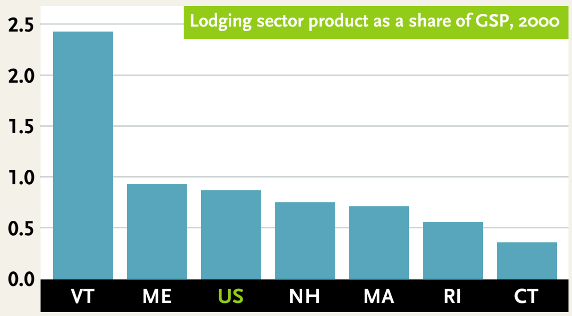
Because visitor spending includes intermediate goods while GSP does not, the ratio of visitor spending to GSP overstates the importance of tourism in the state economy. And comparisons across states should be made cautiously. The ratio provides a rough sense of which states rely more heavily on visitors, but should not be used to compute an exact measure of the difference, or the overall size of the industry in any one state.

with visitor spending—actually contributes less in New England than it does elsewhere.

But considering New England as a whole hides the much larger impact visitors have in certain parts of the region. Leisure travel, in particular, is a major part of the economy in the northern New England states of Maine, Vermont, and (to a lesser extent) New Hampshire. Agencies from these states estimate that they host about 20 domestic visitors per in-state resident annually, much higher than the national average of about 3.5 visitors per resident. This translates into high visitor spending as a proportion of total state output. (See chart on page 8.) Visitors to Maine and Vermont spend an amount equal to about 15 percent of the gross state product; the proportion in New Hampshire is somewhat lower. Far from urban centers and with few other resources or large-scale industries contributing to the economy, northern New England relies heavily on outsiders for its customer base and economic welfare.

Stay with us

In Vermont, the lodging sector's contribution to the state economy is the third largest nationwide, behind only Nevada (15 percent) and Hawaii (5.6 percent).



SOURCE: Bureau of Economic Analysis

By contrast, visitor spending in Massachusetts and Connecticut is much higher on a dollar basis than in northern New England, yet visitors generate a much smaller share of economic activity in these states since their state economies are larger and more diverse. Visitors to Massachusetts alone spend $14 billion per year in the state (versus only $2.5 billion in Vermont), but relative to GSP this mirrors the national average at about 6 percent. Furthermore, southern New England also attracts fewer visitors relative to its residents. An estimated two to four visitors per in-state resident travel to Massachusetts and Connecticut each year, much less than in northern New England. Nonetheless, even in these states, there are areas where the tourism industry has a major economic impact. Where would the Cape Cod economy be without its summer residents? Or eastern Connecticut without its visitors frequenting Foxwoods and Mohegan Sun? And the larger cities in southern New England such as Boston and Providence also attract many international visitors—who tend to spend relatively more during their stay.

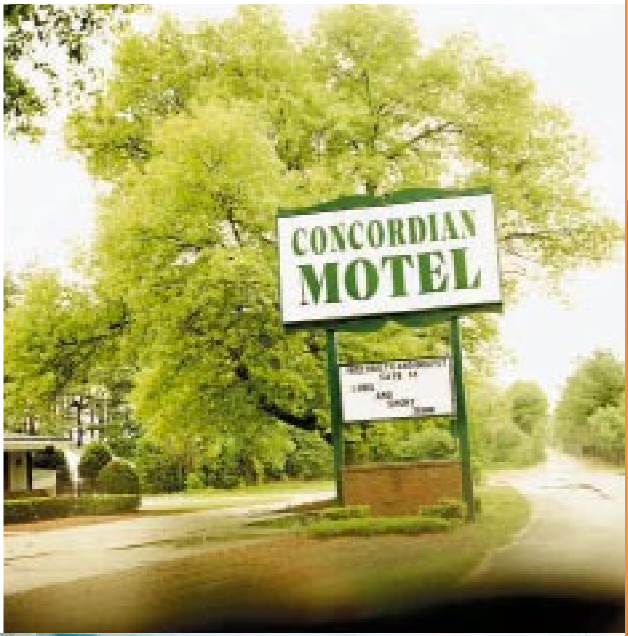
ACTING LOCALLY

Encouraging travelers to visit an area is inherently a local issue. It involves taking advantage of local assets (whether beaches or convention centers) to bring income and jobs to local economies. No wonder promoting tourism is such a popular pastime of government officials, whose success may depend significantly on the resources they bring to their home communities. Indeed, increasing an area's visibility can actually help those officials gain other important resources for the region. For example, federal legislators' personal familiarity with Cape Cod

The New England economy is about as dependent on travelers

and its legendary traffic jams might help Massachusetts garner the $28 million in federal funding it seeks for the redesign of the Sagamore Bridge rotary at the entrance to the Cape.

But encouraging tourism and business travel is not a magic bullet for local economic development. It is likely that visitor expenditures will account for an increasing amount of economic activity over time as travel becomes cheaper and easier, which makes it attractive as an industry for economic developers to target. But the jobs generated are frequently low-skill, low-wage, and part-time—not ideal tools for long-range job growth. And this spending as a whole is susceptible both to economic downturns—since vacation and business travel is typically one of the first budget items cut when the economy turns sour—and to unexpected drops in business resulting from everything from an unusually rainy spring to the recent outbreaks of SARS. For some areas, economic development efforts may be better targeted in other ways. But capturing more of the nation's travel activity to feed the local economy could certainly be advantageous for New England, especially in the relatively less populated parts of the region where tourism tends to flourish. ❊



Leisure travel is especially significant to the local economies in northern New England and in Cape Cod.

as the rest of the nation

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