

UC Berkeley

Fisher Center Research Reports

Title

Examining the Role of Travel and Tourism in California's Economy

Permalink

<https://escholarship.org/uc/item/25m7z0mq>

Authors

Kroll, Cynthia
Bardhan, Ashok Deo

Publication Date

1996-04-01

Research Report

Fisher Center for Real Estate and Urban Economics • University of California, Berkeley • April 1996

Examining the Role of Travel and Tourism in California's Economy

In the midst of efforts to redefine the California economy and to identify sources of future growth, the travel and tourism sector appears as a significant employment sector, one that will play a role in the state's economic growth for the rest of the decade. Although this sector is important as a source of employment, income and development opportunities, its expansion may also raise issues ranging from the impacts of tourism on sensitive environmental systems to the quality of jobs developed in the industry. The purpose of this article is to draw together the available information on tourism and travel as an economic activity, to estimate the income and employment impact of this activity in California, to identify the sources of demand for travel and tourism in the state, and to examine the implications of this activity for the state's economy presently, and in the next decade.

A Look at Tourism and Travel Worldwide and Nationwide

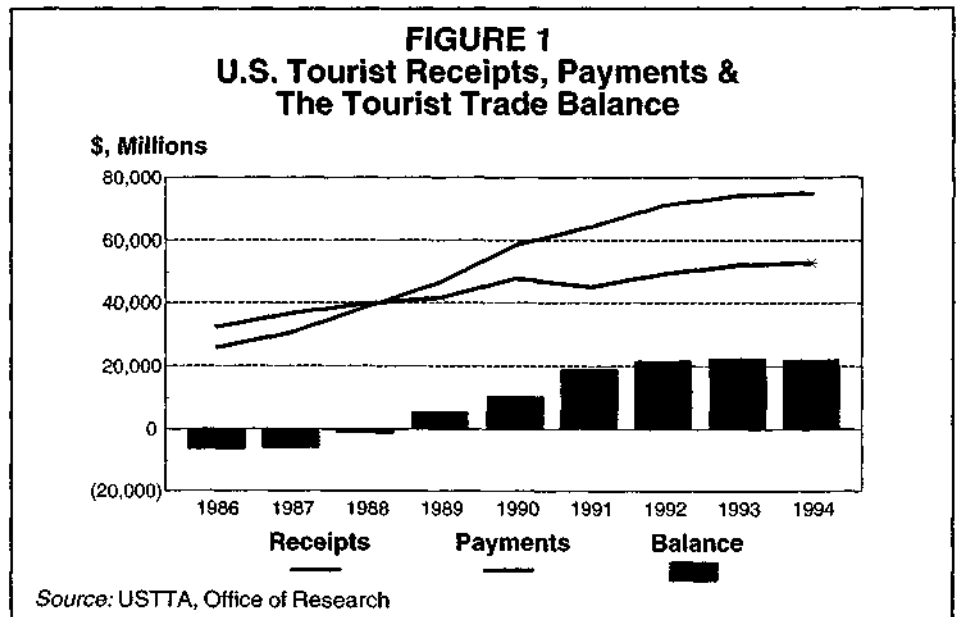
According to the World Tourism Organization, spending on international travel and tourism was in the range of \$500 to \$700 billion globally by the early 1990s, generating close to 100 million jobs worldwide. The organization forecasts that tourist trips worldwide will grow from approximately 500 in 1995, to

650 million trips by the year 2000, with growth continuing into the next decade at a rate of between 3% and 6% annually. Expanding Asian and Latin American economies will fuel much of this increase, along with growth from traditional sources such as Europe and North America.

The *Journal of Travel Research* reports that the U.S. is the world's most frequent international destination. Travel and tourism expenditures of international travelers account for a significant and growing part of the foreign trade sector of the U.S. economy. In 1994, the U.S. had a positive services balance of \$22 bil-

lion in travel and passenger fares, a significant improvement from the 1980s when the balance was in the deficit, as shown in Figure 1. This surplus contributed to the overall balance in services of \$68 billion. In contrast, the merchandise trade deficit reached a figure of over 160 billion dollars in 1994.

The Pacific Rim countries are of growing importance in the recent gains in tourism in the United States. Total arrivals from abroad grew from 26 million visitors in 1986 to over 47 million in 1992, and dropped slightly in 1993 and 1994 (to 45.7, largely due to a decline in (Continued on page 2)

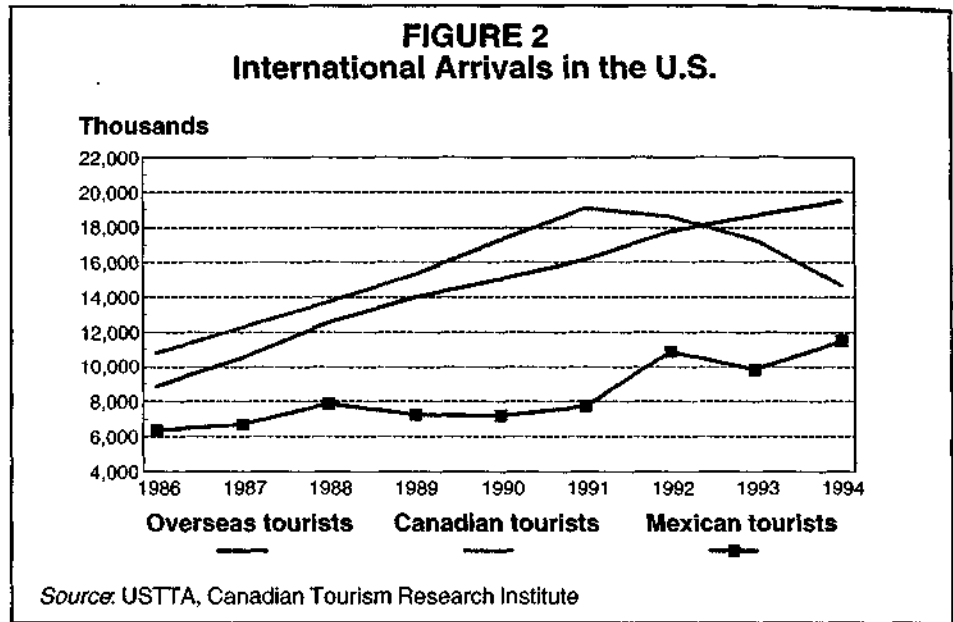


travel and tourism from Canada). Canada still accounts for the largest number of travelers to the U.S., but Mexico's share has increased significantly since 1990, and there is a growing influx from overseas (excluding Canada and Mexico), particularly from East Asia, as shown in Figure 2. Of the overseas countries of origin, Japan supplies the largest number of visitors, over 3.5 million in 1993 (see Figure 3). Furthermore, with a 1993 travel expenditure total in the U.S. of \$14.3 billion, Japan accounts for the largest expenditures of any international group of travelers to the U.S. (including Canada and Mexico). High expenditures per trip are characteristic not only of Japanese travelers but also for visitors from other Asian countries, as shown in Figure 4.

A survey by the U.S. Travel and Tourism Administration (USTTA) in 1994 focused on the purpose of visits to the U.S. and the leisure/recreation activities engaged in by foreign visitors (see Table 1). Factors drawing visitors to the U.S. included vacation/holiday visits (63%), visits to friends/relatives (29%), business travel (26%), convention/conference (8%), and study/teaching (6%). Activities engaged in most frequently include shopping (83%), dining out (69%), sightseeing in cities (64%), and water sports (35%). These characteristics of travelers favor states with large business communities, international family connections, and physical and historical settings attractive for vacation and holiday visits. California offers all of these factors as a tourism destination.

Travel and Tourism in California

Of the 19.2 million overseas visitors to the U.S. in 1994, 88.5% of tourist arrivals (17 million visitors) were concentrated in four states—California, Florida, New York and Hawaii. With 5.2 million visi-



tors, California displaced Florida to become the top destination choice of overseas visitors to the U.S. in 1994. California's dominant role in arrivals in part reflects the size and location of its airports, but the state's diversity in the factors attracting tourists to the U.S. is also of primary importance. The state is well represented in 18 of the 20 top leisure/recreation activities shown in Table 1. (The only exceptions are casinos/gambling, an activity which is available in Nevada, in close proximity to California, and American Indian Communities,

which are present but generally not developed for tourism in California.) In addition to the many vacation sites available in the state, business travelers come because of the state's importance in international trade (accounting for 15% of U.S. foreign trade) and in foreign investment in the U.S. (California has 20% of foreign investment projects in the U.S.).

The state's large foreign born population (over 25% of residents according to the 1990 census), as well as many second generation immigrants, attracts

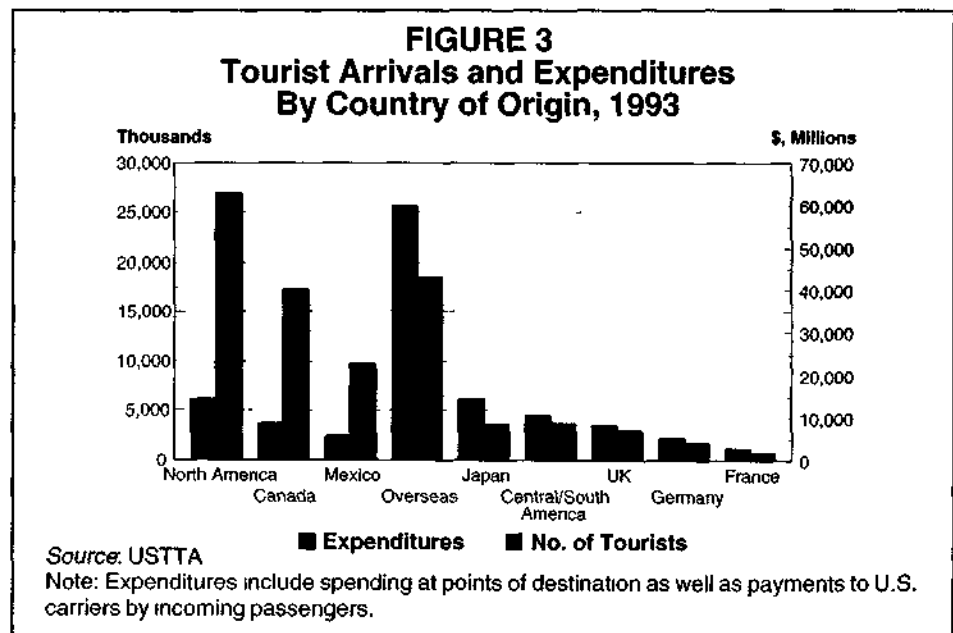
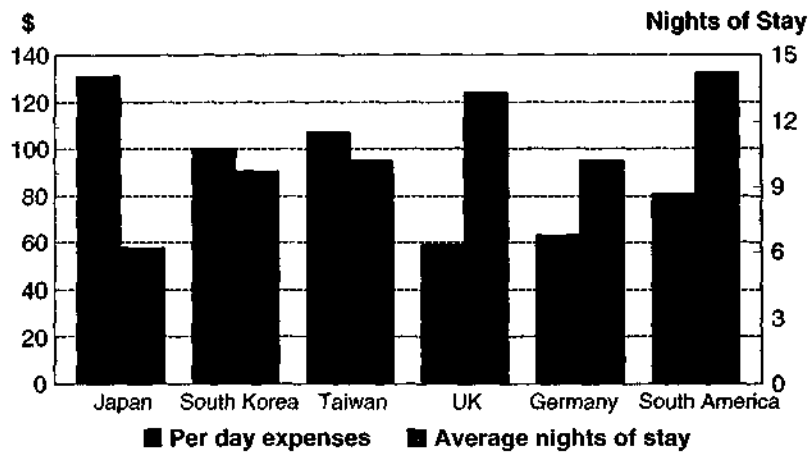


FIGURE 4
Per Day Tourist Expenditures and Average Stay



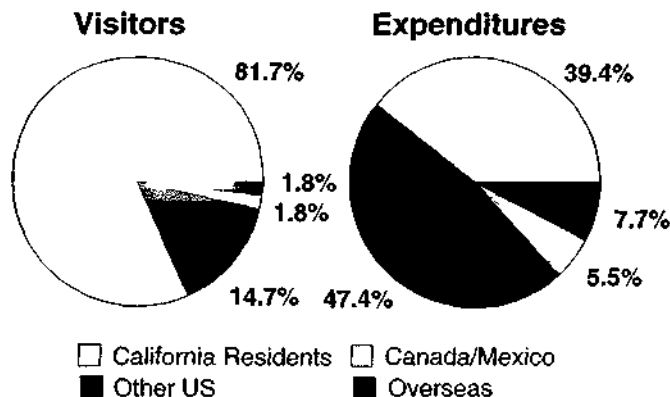
Source: USTTA Survey of International Travelers

tourists visiting friends and family. Over the last 10 years close to two million new legal immigrants have made California their home. These immigrants, many of them from Asia, as well as those who came before them in the 60s and 70s, have retained close ties to their extended families back home. (It should be noted, however, that this kind of tourism works both ways, i.e., California residents visit their friends and families abroad, counterbalancing some, if not all, of the in-state family effect. Also, visitors with family and friends in the state may spend less

than travelers staying in hotels.)

The presence of so many different tourism attractions intensifies the strength of California's tourism industry (a type of economy of scale or agglomeration economy). This is particularly evident for visitors to the state's largest metropolitan areas. San Francisco and Los Angeles host conferences and conventions that also draw both domestic and foreign visitors. San Francisco regularly ranks high in ratings as both a tourism destination (number 1 in the latest *Conde Nast* rating) and as a city to do business in

FIGURE 5
Distribution of California Tourism and Expenditures by Visitor's Place of Origin, 1994



Source: FCREUE from D.K. Shefflet & Associate, USTTA and CIC Research

TABLE 1
Characteristics of International Travelers to the U.S.

Purpose of Visit	
Vacation/Holiday	63%
Visit Friends/Relatives	29%
Business	26%
Convention/Conference	8%
Study/Teaching	6%
Other	9%
Leisure Activities	
Shopping	84%
Dining in Restaurant	69%
Sightseeing in Cities	64%
Water Sports/Sunbathing	35%
Visit Historical Places	33%
Amusement/Theme Park	29%
Visit National Parks	27%
Art Gallery, Museum	25%
Touring the Countryside	24%
Guided Tours	21%
Nightclub/Dancing	16%
Concert, Play, Musical	15%
Casinos/Gambling	12%
Golf/Tennis	10%
Attend Sports Events	9%
Camping, Hiking	6%
Visit American Indian Communities	6%
Cruises, 1 or More Nights	4%
Hunting/Fishing	4%
Ranch Vacations	3%
Snow Skiing	3%

Note: Surveys allowed multiple responses, so percentages add to more than 100%.
Source: USTTA survey, 1994.

(Continued on page 4)

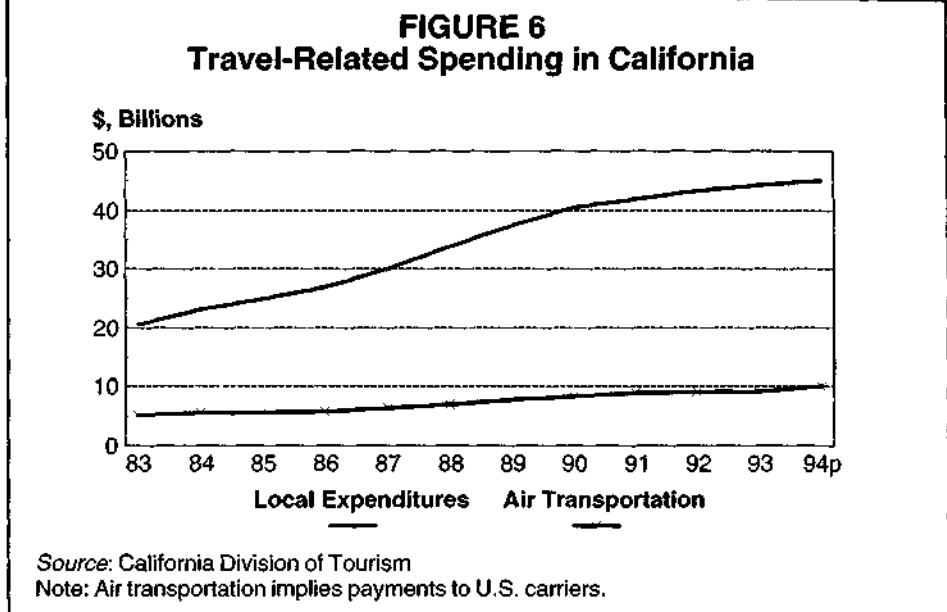
(number 1 in a recent *Fortune* ranking). According to the city's Convention and Visitors Bureau, 38% of visitors arrive for the purpose of conducting business and attending conferences or conventions. San Francisco's location allows visitors to go well beyond the city's boundaries. Over 60% of San Francisco visitors travel to attractions ranging from the Napa wine country, to Carmel to the south, and Lake Tahoe and Yosemite to the east. Los Angeles similarly links visitors to a larger network of Southern California tourism opportunities, ranging as far as San Diego to the south, and Palm Springs and other desert communities to the east.

Sources of Tourism—From Local to Worldwide

Foreign visitors account for only a small portion of travel and tourism demand in California. Much of the activity in the state is generated locally. The California Division of Tourism (CDT) reports that 82% of travel in the state in 1993 was by state residents. CDT estimates that 14% were visitors from other states, while the remainder (only 4%) were international visitors, as shown in Figure 5. As with the rest of the U.S., Canada and Mexico account for the largest share of international visitors, with Japan, the United Kingdom, Germany, Australia and Taiwan accounting for more than half of overseas visitors. Despite the predominance of in-state residents in travel in California, out-of-state and foreign visitors make a sizable contribution to travel and tourism expenditures, as described in the following section.

Defining and Estimating the Size of the Travel and Tourism Sector in California

Despite the recognition of the importance of tourism and travel to the state's



economy, measurement of its role in the economy is not straight forward, as the sector overlaps, but does not fully encompass, a variety of different industrial categories. The travel and tourism industry comprises a cluster of industrial and service sectors, including air, land and sea transportation, hotels and accommodations, recreation and entertainment, and some retail sales sectors. While some of these sectors are almost entirely travel and tourism related (e.g., hotels), travel and tourism accounts for a much smaller portion of sectors that primarily serve

local needs (e.g., retail sectors). In other sectors, income and employment may be split between tourism/travel-related activities and the distribution of goods (e.g., transportation). Estimates of the overall impact of travel and tourism on the state are based on surveys of travelers in the U.S. Results of these surveys are used to estimate the share of activity generated by tourism in each of these sectors.

The California Division of Tourism estimates sales related to tourism for these sectors and reports the combined

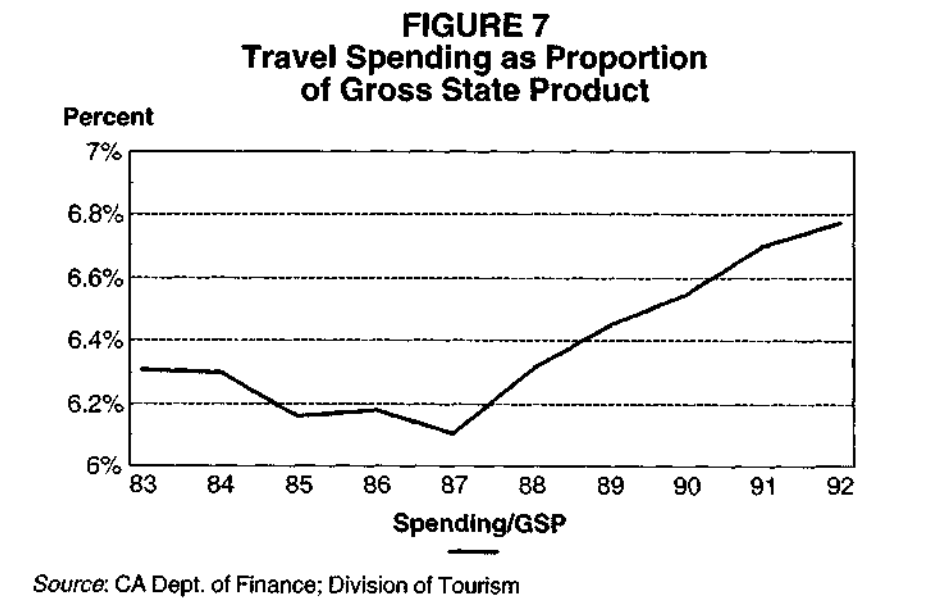
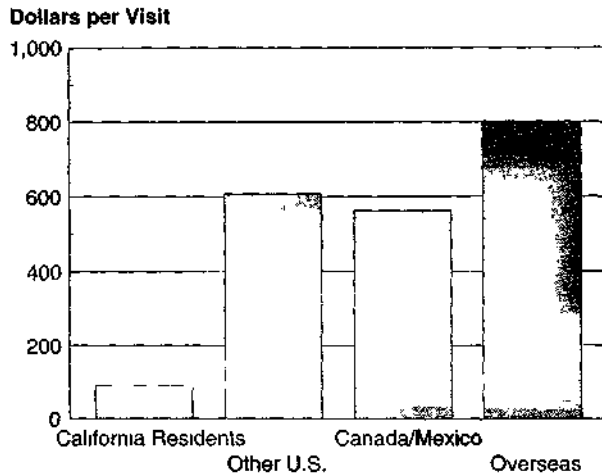


FIGURE 8
Expenditures per Visit, Travelers to California, 1994



Source: FCREUE from DK Shifflet & Assoc, Ltd, USTTA and CIC Research

total as all travel/tourism-related expenditures for the state. According to CDT estimates, total travel/tourism-related expenditures of all tourists to California have more than doubled in the last 10 years, as shown in Figure 6. Putting these expenditures in relative terms, the share of California's tourism cluster in the total economic output of the state has also grown, as can be seen from Figure 7. These estimates show tourism to play a significant role in the state's economy. For example, the CDT estimate of the contribution of this sector in 1991 (\$51

billion), compares favorably with the value added of entire one digit sectors, like Transportation, Utilities and Communications (\$53 billion), Construction (\$32 billion), Agriculture, Forestry and Fisheries (\$15 billion), and Wholesale Trade (\$49 billion), as measured by the California Department of Finance and U.S. Bureau of Economic Analysis.

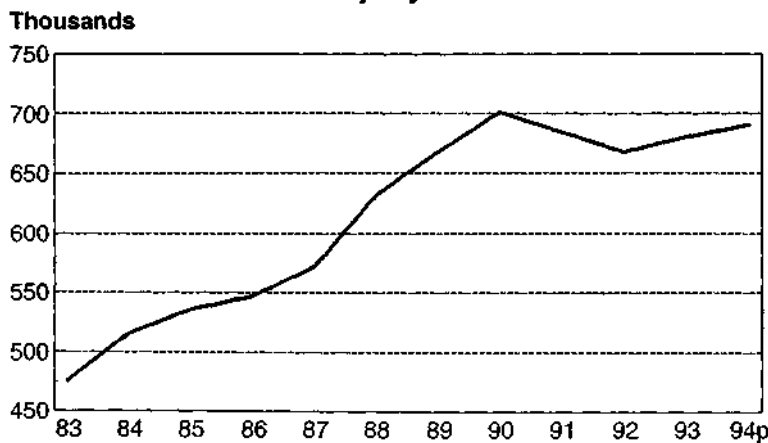
CDT does not report the break out expenditures by the place of origin of the traveler (e.g., state resident, out-of-state domestic, or international). We have

made more detailed estimates based on the same sources used by CDT. We draw on survey data from three different sources (D.K. Shifflet & Associates, Ltd., USTTA, and CIC Research), which cover expenditures of domestic tourists and travelers (California and other U.S.), overseas (excluding Canada and Mexico), and Canadian and Mexican visitors. Using this data, we estimate point-of-destination expenditures for 1994 at \$51.6 billion. The estimate does not include expenditures incurred in air transportation and travel arrangements made before the visitor arrives in California, nor does it include expenditures made by Californians in preparation for travel out-of-state (e.g., air tickets on California carriers).

A breakdown of travel expenditures by these sources shows that although the great majority of travelers in California are state residents, the bulk of expenditures are from out-of-state travelers. Figure 8 shows average per trip travel and tourism expenditures in California broken out by place of origin (in-state tourists, out-of-state domestic tourists, and international tourists). Based on these estimates, as shown in Figure 5, state residents account for about two-fifths of total expenditures, while other U.S. residents account for almost half of expenditures, Canadians and Mexicans for close to 5.5%, and other international travelers for almost 8% of all tourism expenditures in the state. The surveys of domestic travelers conducted by D.K. Shifflet also show that business travelers, who tend to stay no longer but spend more on a daily basis, account for a high proportion of expenditures relative to their share of person trips. Data is unavailable for international business travelers, but domestic business travelers (California and the rest of the U.S.) account for 30.4% of trips and for 38% of expenditures among all domestic travelers to/in the state.

(Continued on page 6)

FIGURE 9
Travel-Related Employment in California



Source: California Division of Tourism

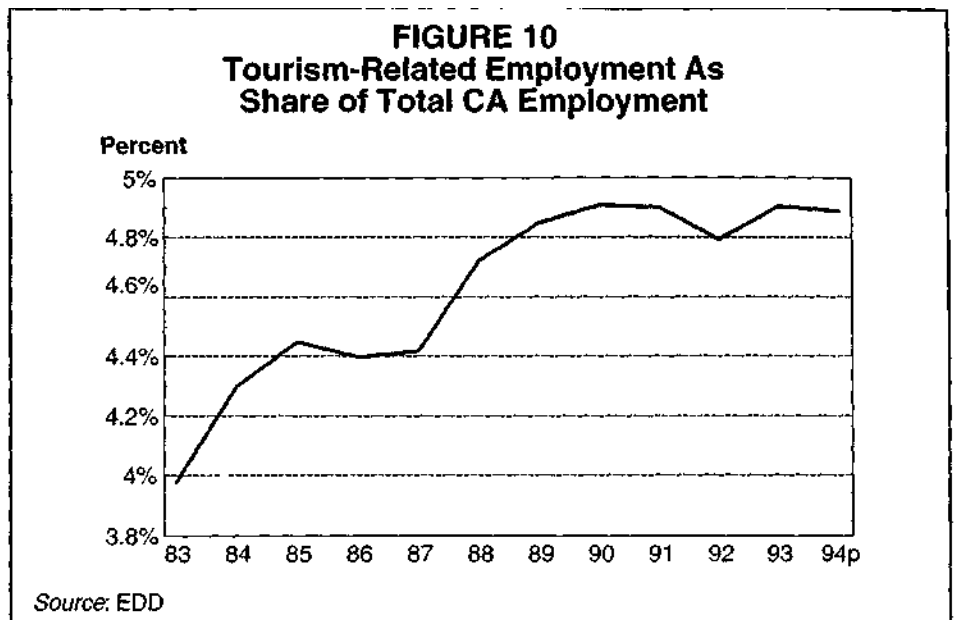
Note: Travel and tourism related employment includes jobs in foods & beverages, transportation, hotels, entertainment etc.

Travel and Tourism as an Employment Base in California

The employment sectors affected by travel and tourism in California include transportation, hotels, entertainment, and selected retail sectors. In total, these sectors employ over two million workers statewide (including local-serving, as well as tourism/travel-related, workers). While in some of these sectors (e.g., hotels), employment is almost entirely travel and tourism related, many other sectors are largely local serving, with tourism and travel accounting for only a small share of total employees. CDT estimates (based on data compiled by Dean Runyan Associates) that the entire travel and tourism industry in California employed 691,000 people in 1994, or about 30% of total employment in the tourism/travel-related sectors.

The CDT estimate for total employment due to tourism shows strong growth in tourism employment since 1983, and an increasing share of total employment devoted to tourism during the 1980s (see Figures 9 and 10). Nevertheless, these estimates show tourism in California to be sensitive to U.S. business cycles. Further sensitivity is seen in the more aggregate employment sectors related to tourism, where growth since 1990 has been weak, even compared to statewide employment growth (see Figure 11). Only employment in amusement and recreation places has consistently grown faster than statewide employment.

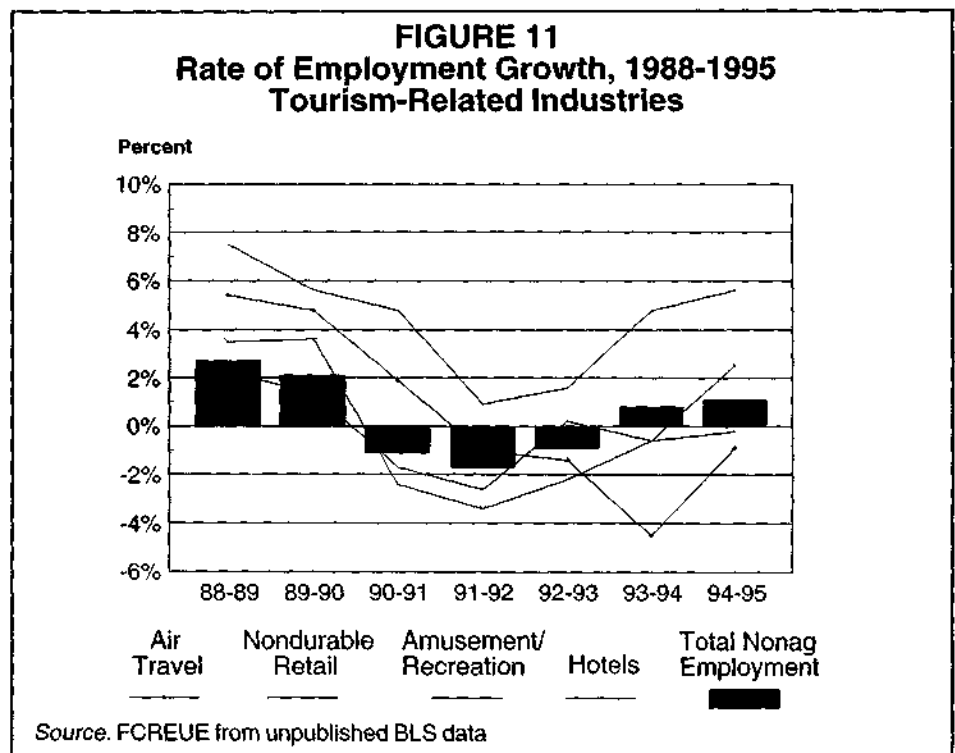
To look more closely at the role of travel and tourism in these sectors, we have taken the revenue estimates described in the preceding section, and estimates of the ratio of employees to thousands of dollars in revenue from the Censuses of Businesses, to estimate the amount of employment generated by travel and tour-



ism in each sector. The results are shown in Table 2. The degree of dependence on travel and tourism varies widely by sector, with hotels and air travel most heavily reliant on travel and tourism dollars, and sectors such as food stores and general merchandise stores far less reliant on the travel and tourism cluster.

The importance of different sectors within the travel/tourism industry takes

on a different tone depending on whether revenues or employment levels are being examined. Transportation related expenditures account for about one-third of revenues, but for less than one-fifth of travel and tourism employment. In contrast, food-related expenditures (including eating and drinking places) account for only one-fifth of all revenues, but for almost two-fifths of travel and tourism employment.



**TABLE 2
California Employment in Tourism-Related Sectors, 1994**

	Employment (thousands) 1994	Tourism Revenue (\$millions) 1994	Employment/ Revenue (\$millions)	Tourism Employment (est., 1000s) 1994	Share of Sector Employment	Share of Tourism Revenue	Share of Tourism Employment
Transportation by Air	89.2	8469.0	6.8	57.6	64.6%	16.4%	8.3%
General Merchandise Stores	242.4	5449.2	7.1	38.7	16.0%	10.6%	5.6%
Food Stores	294.6	2133.2	6.1	13.0	4.4%	4.1%	1.9%
Apparel and Accessory Stores	129.6	2912.8	10.1	29.4	22.7%	5.6%	4.2%
Eating and Drinking Places	794.8	8532.8	29.7	253.4	31.9%	16.6%	36.6%
Hotels and Other Lodging Places	175.9	10181.0	21.0	158.3	90.0%	19.7%	22.8%
Ground Transportation and Transportation Arrangements*	298.7	8469.0	8.5	72.0	24.1%	16.4%	10.4%
Amusement and Recreation Services	171.3	5407.0	13.1	70.8	41.4%	10.5%	10.2%
Estimate for 1994 of all T/T employment	2196.5	51554.0		693.3	31.6%		

T/T Employment as Share of All T/T related sectors

* Column 3 adjusted to account for much lower emp/sales ratio for gasoline sales

**TABLE 3
Payroll per Employee
and Weekly Earnings,
Selected Tourism Sectors,
California, 1993**

Payroll/ Employee Sector

Total Employment all industries	\$27,522
Travel/Tourism Related:	
Local and Interurban Transport	\$18,480
Transportation by Air	\$36,618
General Merchandise	\$13,052
Food Stores	\$17,998
Apparel/Accessories	\$11,949
Eating and Drinking Places	\$9,077
Miscellaneous Retail	\$15,485
Hotels and Lodging Places	\$14,026
Amusement and Recreation	\$23,805
Estimated Payroll/ Employee, Tourism	\$15,482

Source: FCREUE from 1993 County Business Patterns on-line data.

There is also a great deal of variation in the types of jobs generated by travel and tourism expenditures. Annual payroll per employee is well above average for the air travel sector, while eating and drinking places (before tips) offer among the lowest wages in the industry (see Table 3). Using industry wide payroll data and our estimates of employment, we calculate that average payroll per employee in the industry is well below the average for all industries nationwide. Thus, travel and tourism, while an important revenue producer for the state, is often producing jobs well below the average wage or salary level.

**Tourism and Travel Industry
and Real Estate**

Travel and tourism activity accounts for a significant share of real estate activity related to retail trade and amusement and recreation places, and for the bulk of activity related to hotels. Building activity in all three of these sectors has been low in the 1990s. Building activity in retail stores dropped from \$2.3 billion in 1988 to a trough of less than \$1.2 billion in 1993. The estimate for

retail building permits in 1995, about \$1.3 billion, is still well below the 1992 level of \$1.4 billion. The most precipitous drop in permit activity occurred in the hotel/motel sector. Permits were as high as \$671 million in 1988, but by 1995 had dropped by 93%, to \$48 million. Building permits for amusement and recreation permits also dropped sharply in the California recession, from \$217 million in 1988 to only \$94 million by 1994. However, this sector has shown the largest amount of rebound in 1995. At \$175 million, permits for amusement and recreation places are close to 80% of their peak level (\$225 million in 1990), compared to retail stores, which reached only 55% of their 1988 level, and hotels, which remained at less than 10% of their 1988 level.

Slower building activity is consistent with changes seen statewide in economic activity in these sectors, apart from any shifts specifically in tourism and travel. Per capita sales dropped in many retail sectors during the 1990s (see Table 4), and hotel occupancy rates also dipped

(Continued on page 8)

from peaks in the late 1980s. However, signs of recovery are beginning to appear both in retail sales and in hotel occupancy rates. Hotel occupancy rates ranged from 67% in Los Angeles to 74% in San Francisco in 1995, compared to 70% nationwide, and to lows of 61% for Los Angeles and 64% for San Francisco in 1992 (see Figure 13). Retail sales are picking up more slowly, but per capita sales rose for eating and drinking places and (very slightly) for gifts and novelties in 1994.

California's Continuing Competitiveness in Travel and Tourism

The future prospects of the travel and tourism industry in California will depend on both the demand side prospects and any supply side constraints. The state will continue

to exercise a great pull on potential visitors through the medium of three main demand generating elements: 1) sightseeing/vacationing potential of the natural and cultural setting, 2) business connections, and 3) family/friend connections. Reductions in demand could result from competition from other locations, price factors (local inflation or exchange rates), economic changes in the places of origin (e.g., recessions overseas), and changing preferences.

Price of hotel rooms and food services have been rising (at about 1.5% annually in the early 1990s), but the rate of increase is less than in other countries, and relative prices, especially compared to Japan and many European countries, are significantly less. Pricing of air travel to the U.S. from

for years. The low price of the dollar compared to other currencies has helped spur tourism in recent years, while longer term changes in exchange rates are hard to predict. It is comparatively easier to predict the economic health of the Asia-Pacific region, the fastest growing region of origin for overseas visitors to the state. Projections of the IMF and other organizations call for 5% to 7% per annum growth in most countries of the region. The foreign component of tourism therefore can be counter cyclical, while the domestic component of travel and tourism is procyclical, being very sensitive to national economic conditions.

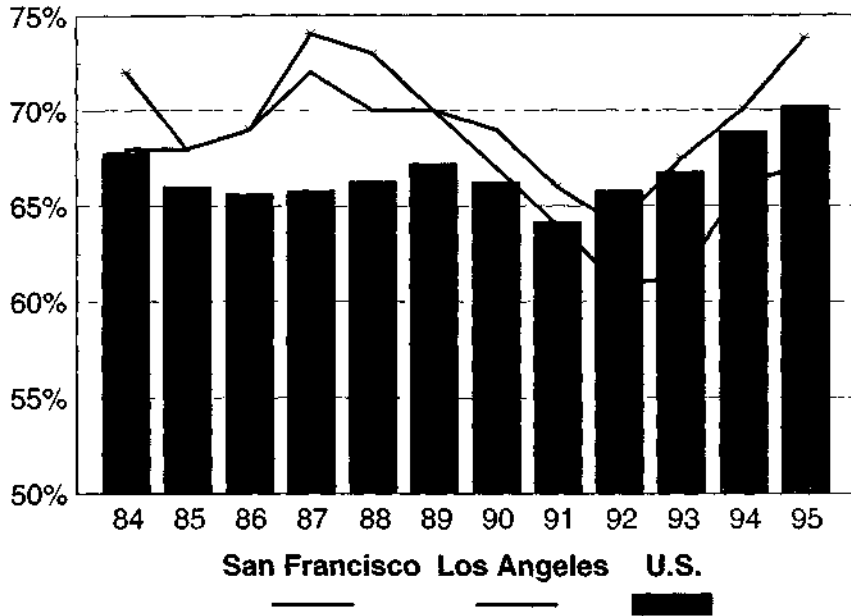
The greatest advantage that California enjoys however, is in the diversity of its

TABLE 4
Taxable Sales Per Capita in California, 1989-1994
(Current Dollars)

Year	Gifts/ Novelties	Food Stores	Eating Places	Service Stations	Business/Personal Services	Department Stores
1989	42.06	489.36	764	493.23	439.28	773.12
1990	40.72	496.84	776.46	529.15	458.86	768.38
1991	39.85	534.54	768.62	494.13	434.74	735.18
1992	39.33	557.81	752.25	522.43	416.37	734.91
1993	37.15	460.25	747.7	520.58	419.59	711.62
1994	38.31	445.63	763.27	516.86	433.05	710.29

Source: California State Board of Equalization

FIGURE 13
Hotel Occupancy, Selected California Places 1984-1995
Percent Occupied



travel and tourism attractants. The availability of attractions such as family and friends, business connections and activities, and sightseeing and entertainment resources implies that the pull of the state is long term, and is unlikely to shift quickly with changing preferences. The state will continue to attract visitors with both single and multiple travel or tourism goals.

On the supply side, capacity limits raise some potential issues in the longer term. Excess capacity continues to exist in accommodations. Roads and highways have become considerably more congested over the past decade, although these may still appear adequate compared to many alternative destinations. Environmental issues raise other potential capacity constraints. Probably the best-known example of this problem is Yosemite Valley, which at times is closed to visitors without reservations because of the concern with impacts of too much congestion on the area's scenic beauty. More generally, plans to expand visitor facilities in areas where the natural

environment is the major attraction are likely to encounter barriers both from environmental regulations and from citizen action. Thus, California's strength as a tourism attraction is not in doubt. Less certain is the state's willingness to accommodate ever-increasing demands from visitors.

Tourism's Contribution to California's Economy— Some Benefits, Some Issues

Tourism is a significant contributor to California's economy, but as a long-term growth sector, it raises a number of questions. In terms of benefits, tourism contributes to a positive balance of trade nationwide, and in California, by bringing in foreign spending. For California, tourism activity also draws domestic spending from out-of-state residents. In addition, attractions available in California may well keep local residents instate for much of their tourism activity that might otherwise occur out-of-state. If estimates of tourism related spending are accurate, then the international com-

ponent of tourism spending appears to be less cyclical than tourism-related sectors overall, helping to cushion the downturns in domestic retail spending during recession years.

For many local areas in California, tourism is a key component of the economy. Tourism is a significant component of economies as large as San Francisco and San Diego, and is the primary industry of many desert, mountain and small coastal communities in the state.

At the same time, tourism is a relatively low-wage sector. Growth of employment in this sector will contribute to the narrowing of the income advantage California has felt with other parts of the U.S. Furthermore, tourism is a sector that may well encounter "growing pains" in the form of citizen concerns in many parts of the state. Nevertheless, the sector is one that is likely to have positive (although cyclically sensitive) growth over the long run, and to contribute to California's diverse economy in the future.

Cynthia Kroll
Ashok Bardhan

