FRBSF Weekly Letter

Number 93-30, September 10, 1993

Summer Special Edition: Touring the West

Summer marks the peak tourist and travel season in the United States. And a number of areas in the Twelfth District are more dependent on tourism, travel, and related industries than the national average. Conditions in these industries are of particular interest in District areas that are afflicted by weakness in other sectors of their economies.

How is District tourism faring? This *Letter* reviews conditions in the tourist and travel industry in certain key regions of the District. Like other indicators of economic activity in the District, the tourist industry is performing sluggishly in southern California and Hawaii while it is setting records in Idaho and Utah. These trends are shown to be directly reflected in employment, amplifying, rather than offsetting, other economic trends in the regions.

Current developments and trends

Tourism and travel conditions in the Twelfth District bear a striking resemblance to the variety of current economic conditions in District states. Economic conditions are weak in California, sluggish in Hawaii and western Washington, but among the strongest in the nation in the intermountain region. Travel and tourism conditions correlate closely with these economic trends, with industry performance ranging from depressed or sluggish in Hawaii and southern California, to robust in Idaho and Utah.

One barometer of trends in the travel and tourism industry is hotel employment. Hawaii's tourist slump is evident in the sharp drop in hotel employment since it peaked in April 1992—3,000 jobs lost, or 7.4 percent of total employment, offsetting most of the gain realized in the previous two years or so. Reflecting the slump, unemployment has risen to the 4 to 5 percent range (4.8 percent in July) from the 2 to 3 percent range seen in 1991 and preceding years. Tourism in Hawaii has suffered for a number of reasons: the recessions in Japan and California, the drop in tourism following the Gulf War, and Hurricane Iniki's devastation of the island of Kauai. For 1993, year-to-date travel through June is down 9.5 percent from eastbound (Asia) visitors and 4.6 percent for westbound (mainland U.S.) visitors. While tourism provided an economic boom in the 1980s, development officials are now exploring the promotion of high-tech and communications industries to provide a more diversified economic base.

Sluggish conditions also exist in California. Hotel employment in the state has dropped 8.0 percent since August 1990—a loss of 15,000 jobs. The decline is due in part to the state's severe economic recession, which has dampened business travel. In addition, Los Angeles has shown only a slight recovery from the trauma of the civil disturbances in May 1992. Hotel occupancy in the city this past May was 58.4 percent, barely above the 57.2 rate of a year earlier. Tourism in San Diego also is reported to have suffered from the downturn in the defense industry as well as the southern California recession. Conference and business travel is down, as are spur-of-the-moment trips by southern California residents.

Contacts report that established tourist attractions, such as San Francisco and Orange County, have fared better than other regions, in part because of new attractions, like Toontown at Disneyland. Reflecting the recession, contacts report that the fastest growing segment of the California amusement industry is the family fun centers—featuring miniature golf, batting cages, video games, water slides, etc.—that offers relatively low-cost entertainment.

The states showing the most robust tourist conditions in the District are Idaho and Utah. In Idaho, inquiries for vacation information were up 12.5 percent in the first three months of 1993. So far in 1993, visitors to Salt Lake City are up 8.6 percent from a year earlier. Reflecting the boom in recent years, hotel employment since January 1989 has risen 18.6 percent in Idaho and 22.8 percent in Utah. Year-to-date hotel and motel tax revenues in Idaho and Utah (Salt Lake area) are up 11.5 and 7.8 percent, respectively.

These states benefited from abundant snows last winter which provided excellent skiing conditions. The precipitation also improved this summer's conditions for water recreation, ranging from marinas to white water rafting. Also, "ecotourism," focusing on wilderness areas, national forests, and state forest preserves, is a growing segment of the market in Idaho. A similar story holds in Utah, where national park attendance is at record levels.

Furthermore, just as economic recession is negatively affecting the travel and tourism industry in California, contacts report that robust economic conditions are aiding the travel and tourism industry of the intermountain regions. Growing industries, such as computer software, are attracting significant conferences and meetings, which promote the areas to business travelers as tourist destinations.

Finally, dwelling on good conditions brings us to Nevada. For several years expansion in the Las Vegas casino industry has provided so many construction jobs that construction now accounts for 7 percent of Nevada's employment, well above the national average of 4.2 percent. Although negatively affected by the drop in travel during the Gulf War, hotel employment has rebounded in the past year and stands 15 percent above the January 1989 level. The state is facing competition from the legalization of gambling in other states and the expansion of gambling on Native American reservations. To meet this competition, new developments are designed to broaden the state's appeal by focusing on entertainment for the whole family. For example, three new resort/theme park hotels with 10,000 rooms will open in the coming winter. The largest of these three developments is already sold out for the first six months of 1994.

Is tourism important?

The size of the tourism-related industries relative to the rest of the region's economy is as important as its rate of growth. One measure of importance is the employment in these industries as a share of total employment. We therefore aggregated these tourist-related industries into two distinct tourist sectors, and measured their employment shares. First, a "primary" measure aggregates employment in hotel, amusement and recreation, and auto rentals. This measure is viewed as a conservative, direct measure of the effects of tourism in an economy. Second, a broader measure is calculated that includes employment in eating and drinking establishments, air, water, and intercity transport, and transportation services.

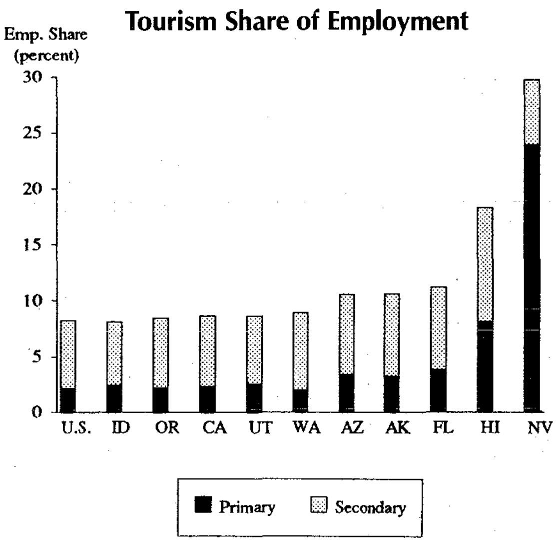
This "secondary" measure obviously includes some nontourist elements of a regional economy (for example, demand for eating and drinking establishments by local residents). However, it still excludes some segments of tourist activity including spending at retail establishments (which are not easily broken out between tourist and nontourist spending). These measures are then viewed as providing information as to the relative ranking of the importance of tourism across regions, as opposed to the absolute importance of tourism within a region.

The results of this exercise are shown in Figure 1. Most District states have tourism and travel sectors that are larger than the nation's, but not by much. The primary shares in Idaho, Oregon, California, Utah, and Washington are in the 2 to 3 percent range versus a national average of 2.1 percent. Adding in the secondary sector yields a similar result, with the total shares for these states in the 8 to 9 percent range versus a national average of 8.2 percent. Arizona and Alaska exhibit somewhat larger sectors, with the primary share accounting for over 3 percent of employment and the total share accounting for between 10 and 11 percent.

The striking exceptions in the District are Hawaii and Nevada. The primary measure accounts for 8 percent and 24 percent of these two states, respectively. Adding in the secondary measure yields total shares of 18 percent for Hawaii and 30 percent for Nevada. An even higher percentage is seen in Las Vegas, where the primary and total shares for Clark County are 28 percent and 34 percent, respectively. These totals are striking both compared to other District states and compared to a similarly tourist-dependent state like Florida. The comparable employment for Florida is 4 percent for the primary share and 11 percent for the total share.

Interpretation

How should we view these results? One interpretation is that developments in travel and tourism are crucial for the economies of Hawaii and Nevada. When this industry is healthy in these regions, the states do well. This is corroborated by the current good times in Nevada, one of the strongest growing states in the nation, and the economic weakness in Hawaii.



In states where tourism and travel are a small share, good conditions in the industry both reflect the underlying health of the economy, and are "icing on the cake." The Idaho and Utah economies would likely still be strong performers even without their tourism boom. The attractions of these states as destination points only add to their economic prosperity.

For California, the industry accounts for almost exactly the national average. The California economy is much more heavily based on manufacturing, construction, and trade than on these tourist sectors. This suggests that while the current mixed conditions in the California industry are not necessarily good news, the California slump is being driven by conditions in sectors other than tourism.

For certain regions in California, however, the tourist and travel industry is more important. The employment shares in the primary sector for San Diego, Orange, and San Francisco are around 3 percent versus the state average of 2.3 percent. Total shares for these regions are around 10 percent versus the state average of 8.6 percent. In contrast, Los Angeles's primary share is only 1.8 percent. Adding in the secondary sector, however, brings Los Angeles back to the state average. The tourist and travel slump in San Diego and Los Angeles, therefore, both reflects the underlying regional economic downturn, and is a further source of economic weakness. In contrast, stronger conditions in Orange County and San Francisco are helping these areas weather the current economic slump.

Brian A. Cromwell
Economist

Research Department
Federal Reserve
Bank of
San Francisco
P.O. Box 7702
San Francisco, CA 94120

Printed on recycled paper with soybean inks.

Index to Recent Issues of *FRBSF Weekly Letter*

DATE	NUMBER	TITLE	AUTHOR
2/19	93-07	The Twelfth District Agricultural Outlook	Dean
2/26	93-08	Saving-Investment Linkages in the Pacific Basin	Kim
3/5	93-09	A Single Market for Europe?	Glick/Hutchison
3/12	93-10	Risks in the Swaps Market	Laderman
3/19	93-11	On the Changing Composition of Bank Portfolios	Neuberger
3/26	93-12	Interest Rate Spreads as Indicators for Monetary Policy	Huh
4/2	93-13	The Lonesome Twin	Throop
4/9	93-14	Why Has Employment Grown So Slowly?	Trehan
4/16	93-15	Interpreting the Term Structure of Interest Rates	Cogley
4/23	93-16	California Banking Problems	Zimmerman
4/30	93-17	Is Banking on the Brink? Another Look	Levonian
5/7	93-18	European Exchange Rate Credibility before the Fall	Rose
5/14	93-19	Computers and Productivity	Schmidt
5/21	93-20	Western Metal Mining	Schmidt
5/28	93-21	Federal Reserve Independence and the Accord of 1951	Walsh
6/4	93-22	China on the Fast Track	Cheng
6/18	93-23	Interdependence: U.S. and Japanese Real Interest Rates	Hutchison
6/25	93-24	NAFTA and U.S. Jobs	Moreno
7/16	93-25	Japan's Keiretsu and Korea's Chaebol	Huh/Kim
7/23	93-26	Interest Rate Risk at U.S. Commercial Banks	Neuberger
8/8	93-27	Whither California?	Sherwood-Call
8/20	93-28	Economic Impacts of Military Base Closings and Realignments	Sherwood-Call
9/3	93-29	Bank Lending and the Transmission of Monetary Policy	Trehan

The *FRBSF Weekly Letter* appears on an abbreviated schedule in June, July, August, and December.