Tourism and New York City’s Economy
Jason Bram

In New York City, tourism has made impressive gains in recent years, particularly in the foreign visitor segment. While not large enough to propel the city’s economy, this long-term growth industry is critical to maintaining the local export base and providing jobs to low-skilled workers.

Tourism is one of the few bright spots in New York City’s economy. Between 1977 and 1994, employment growth in local tourist-related industries was more than six times the rate for the city as a whole. At the end of that period, hotel occupancy rates reached a six-year high, and in 1995 they are expected to rise even further. Besides providing direct benefits to local businesses, tourism has helped to maintain the city’s export base, which has suffered from declines in manufacturing.

What forces drive foreign and domestic tourism in New York City? How profoundly does this industry affect the city’s economy? This edition of *Current Issues* explores these questions by measuring tourism’s contribution to employment, earnings, and retail sales in New York City, and by comparing the results with figures for the United States as a whole. It also discusses the critical role of foreign visitors and introduces an exchange rate affordability index that can help assess conditions for foreign tourism.

How does the analysis add up? Tourism is a small but growing industry that can provide important economic and social benefits to New York City now and in the years ahead.

Who Are New York City’s Tourists?
A discussion of the economic impact of the tourism industry requires that we first define the term “tourist.” Are visitors, business travelers, visiting friends, and relatives from out of town considered tourists? According to the most commonly accepted definition of the term, the answer is “yes.” Specifically, New York City tourists include all foreign and domestic visitors from outside the metropolitan area, except for commuters. The tourism industry, in turn, comprises the business these individuals generate through spending while in the area. Tourist expenditures are a more effective measure of tourism’s impact than number of visitors because the duration and nature of visits vary substantially. For example, one person on a day trip to the city will spend substantially less than a person who stays for a week.

The majority of visitors to New York City come from the Northeast. According to a comprehensive study on tourism in the region, close to two-thirds of visitors reside within 250 miles of the city (Port Authority 1994). However, because many come on day trips, their share of total tourist expenditures is relatively low—less than 30 percent.

Visitors from other parts of the United States account for roughly 30 percent of spending, which is fairly evenly distributed among tourists from the West, Midwest, and the South (excluding areas...
within a 250-mile radius of New York City, such as Washington, D.C.).

But it is foreign tourists who play the most important role in New York City’s tourism industry. They represent just 15 percent of visitors but more than 40 percent of all tourism expenditures (Port Authority 1994).

The Unique Role of Foreign Tourists
Besides generating nearly half of New York City’s tourism revenues, the foreign visitor segment is a strategic part of the city’s economy for several reasons. First, since overseas business cycles can be out of sync with local ones, foreign tourism can grow while the local economy is stagnant or contracting. As a result, in slow periods, this segment of the industry can serve as a stabilizing economic force.

Second, New York City’s unparalleled diversity of attractions and cultures gives it an enduring competitive advantage in attracting visitors from abroad. Fifteen percent of tourists to the area are from foreign countries, compared with less than 5 percent nationally (Port Authority 1994).

Finally, this segment’s contribution has substantial growth potential. Worldwide tourism is expanding at a much faster pace than the U.S. market—a trend that is projected to continue.

What Drives Tourism?
To answer this question, we developed a crude statistical model that uses hotel occupancy rates as a proxy for tourism (see box below). Tests of the model suggest that the value of foreign currencies against the dollar appears to be an important determinant of foreign tourism. For example, in the mid-1980s, while the Northeast economy was booming, the strong dollar clearly deterred foreign visitors. Conversely, in 1987-88, a plunging dollar gave the industry a boost (Chart 1).

A Statistical Model of Tourism
Using hotel occupancy rates (PKF Consulting) as a rough proxy for local tourism, we developed an equation to identify the factors that most influenced tourism in the 1976-94 period. The two variables that proved to be significant were foreign exchange rates (for foreign tourism) and changes in employment levels in the Northeastern United States (for domestic tourism). National employment and income trends were also tested as a factor but did not prove to be significant.

To develop a single index of foreign exchange rates, we first created indexes based on U.S. dollar per currency unit for each of eight countries: Canada, the United Kingdom, Japan, Germany, France, Italy, Switzerland, and Spain. These countries together accounted for two-thirds of visitors to New York City in 1992. Each country’s index was then weighted according to the 1992 distribution of foreign visitor expenditures in New York City (Port Authority 1994). The resulting index, used in the equation, serves as a measure of exchange-rate affordability for the home countries of most visitors to New York City.

For the other variable, regional job trends, we used a two-year moving average of the percent change in total employment in twelve Northeastern states (Connecticut, Massachusetts, Rhode Island, Maine, New Hampshire, Vermont, New York, New Jersey, Pennsylvania, Delaware, Maryland, and the District of Columbia) excluding the New York City metropolitan area. The selection of these states was based on research showing that most domestic visitors come from within 250 miles of the city (Port Authority 1994). The two-year growth rate was used to capture the cumulative impact of trends in employment.

While the sample period is fairly small and the hotel occupancy rate is an imperfect barometer of tourism, the relationship between these two variables and tourism is clearly significant. When taken together, the measures can explain about 80 percent of the variation in hotel occupancy. The following example illustrates the relative effects of the two variables: in the regression, a 0.5 percentage point increase in regional job growth—or a 6.7 percent appreciation of foreign currencies against the dollar—will tend to push hotel occupancy rates up by 1 percentage point.

The model does not explicitly differentiate between foreign and domestic tourism. However, it is logical to conclude that exchange rates affect foreign tourism, while regional growth relates to domestic tourism. Thus, to separate out foreign effects, we factored the exchange rate index into the model and held the domestic variable constant at its average level. Conversely, we estimated the domestic tourism effects by factoring in regional job growth and holding the exchange rate constant. Chart 1 shows patterns in actual hotel occupancy rates and the predicted values based on domestic and foreign variables over the past two decades.
Similarly, in recent years, a weak dollar has brought droves of tourists from overseas. (Special events, such as the World Cup matches, may also have helped attract foreign visitors in 1994.) Since Western Europeans account for more than half of foreign visitor spending, the strength of European currencies against the dollar helped the industry in 1995—to date, hotel bookings and retail spending in tourist-intensive industries are reportedly strong (Kamen 1995).

Not surprisingly, domestic tourism, which accounts for more than half the market, is driven by conditions close to home. In tests of the model, changes in employment levels in the Northeast proved to be a major factor, while employment trends in the rest of the United States did not. The fact that nationwide economic conditions do not play much of a role may reflect a substitution effect: in other words, U.S. residents’ tendency to travel less during economic slumps is offset by a shift in preference toward New York City over more exotic—and expensive—overseas destinations. This substitution effect is not evident among visitors from the Northeast. In contrast to tourists from other parts of the country, this group appears to curtail its visits to New York City during periods of high regional unemployment.

Thus, the 1991-93 slump in tourism (Chart 1) was apparently due, in large part, to a severe regional recession, exacerbated by a hotel-room surtax instituted in 1990. In 1994, however, regional job growth was at its strongest in six years, and the tax was repealed. Both factors evidently contributed to a rebound in tourism.

How Important Is Tourism?
A very broadly defined industry, tourism is larger than most narrowly defined sectors in New York and nationwide. But compared with other broad industry groups such as finance, business services, and even manufacturing, tourism is relatively small. A special study conducted by the New York Convention and Visitors Bureau estimated that visitors to the city spent $10.5 billion in 1992, equal to 5.5 percent of city personal income. For that year, this revenue directly supported 4 percent of local employment (131,000 jobs) but only 2.5 percent of wage earnings, because tourism-related jobs tend to be low paying. Estimates by the Port Authority for the same year show similar results.

The industry’s true impact on the local economy is difficult to assess. Because tourism represents a market of end-users rather than a particular category of goods or services, it is not defined as a discrete industry in the codes used for government statistics. Therefore, we use tourist-intensive industries (such as hotels, restaurants, and museums) as proxies to measure tourism sales.

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employment, and earnings. To assess tourism’s relative importance to New York City, we then compare its share of economic activity locally with its share nationwide.

**Employment and Earnings:** By this measure, tourism’s contribution to the area’s economy appears to be modest. The hotel industry—the most relevant sector because it almost exclusively services visitors—employs 1 percent of New York City’s workers and accounts for just 0.7 percent of total wage earnings. Both of these proportions are well below the national average. For a broader range of tourist-intensive industries—eating and drinking places, amusement and recreation services, museums and cultural attractions—tourism still accounts for a smaller share of both employment and earnings in New York City than nationally (Chart 2). 7

**Retail Sales:** The share of retail and related sales in tourist-intensive sectors such as hotels, restaurants, and souvenir shops tells a different story. 8 By this crude measure, New York City surpasses the United States overall and is outranked by just four other metropolitan areas—Las Vegas, Orlando, Honolulu, and San Francisco (Chart 3). New York City also outstrips Buffalo–Niagara Falls and all other Second District metropolitan areas, which rate slightly below the national average (Chart 4). 10

What, specifically, do tourists spend their money on? On average, visitors to New York City allocate less of their budgets to hotels than do visitors to virtually all other cities. The modest amount tourists spend on lodging evidently reflects the large number of day-trippers and visitors staying with friends and relatives. 11 In contrast, outlays at eating and drinking places, amusement and recreation services (which include the arts), and souvenir or gift shops are relatively high. In addition, the city’s status as a fashion center evidently boosts visitor spending at apparel stores—sales are substantially higher than can be accounted for by resident purchases. These spending patterns are consistent with survey findings showing that the city’s primary draws are shopping, dining, and the arts (Port Authority 1992).

**Why the Difference?** The two proxies—employment/earnings and retail sales—are not necessarily contradictory. Tourism’s impact may appear large in terms of retail sales but modest in terms of employment

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**Chart 3**
Share of Business Sales in Tourist-intensive Industries: U.S. Metropolitan Areas

**Chart 4**
Share of Business Sales in Tourist-intensive Industries: Second District Metropolitan Areas


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and earnings because New York City’s economy is dominated by nonretail industries, most notably financial services. Because retailing on the whole is a much smaller part of the city’s economy than the nation’s, using retail sales as a base overstates tourism’s relative importance. Nevertheless, visitor outlays flow into the city’s economy not only through wages, but also through profits, sales taxes, rents, and other expenses, all of which are high in New York City. As a result, employment and earnings tend to understate tourism’s contribution.

A Positive Impact

Clearly, tourism cannot make or break the city’s economy, but it does play a positive role in several ways. First, by generating many low-skill (albeit low-paying) jobs, tourism provides much-needed employment opportunities for poorer segments of the population.

Second, as an export industry, tourism tends to benefit the local economy more than intraregional commerce because of indirect “multiplier” effects. Inflows of money from outside the region can generate additional waves of economic activity—for example, a hotel maid will use part of her earnings to go out to the movies, or a restaurant will draw on its income to print up menus. These multiplier effects are estimated to equal about 37 percent of tourism spending (New York Convention and Visitors Bureau [1993]).

Third, tourism, though small, is growing. Between 1977 and 1994,¹² New York City employment grew just 4 percent overall, but it rose by 35 percent in the hotel industry and 26 percent in other tourist-related sectors (restaurants and bars, amusement and recreation services, and museums and galleries). The growth potential of foreign tourism in particular is significant.

Conclusion

Unlike the U.S. industry, which is dominated by domestic travelers, New York City tourism benefits greatly from foreign visitors. The strength of foreign currencies led record numbers of overseas visitors to New York City in 1994 and early 1995. The city’s ability to draw foreign visitors is a big plus because foreign tourism is relatively immune to local recessions and has the potential to grow rapidly in the years ahead.

While tourism—both domestic and foreign—is critical to hotels, theaters, and a wide range of local retail industries, it is not large enough to propel the city’s economy. Still, as a growing export industry that employs a significant number of low-skilled workers, tourism has clear benefits for the metropolitan area.

Notes

1. In a regional context, the term “export” refers to sales to individuals from outside the region, though not necessarily from outside the country. The region, in this case, is the New York City metropolitan area.

2. In most cases in this article, the metropolitan area refers to New York City plus twelve counties within commuting distance: Nassau, Suffolk, Westchester, Rockland, Passaic, Bergen, Essex, Hudson, Union, Middlesex, Morris, and Somerset.

3. The tourism industry, as defined here, excludes outlays for transportation to and from New York City (for example, air and rail fares). Such expenditures are as indicative of local residents’ travel outside the region (imports) as visitors’ travel to the region (exports). Moreover, transportation revenues do not necessarily accrue to the local economy.

4. In citing numbers of visitors in this article, we count the number of distinct trips rather than the number of people.

5. The Northeast, as defined here, includes New England, the Middle Atlantic states (excluding the New York City metropolitan area), as well as Delaware, Maryland, and Washington, D.C. New York City is excluded because residents cannot be tourists to the area.

6. In separate studies, the New York Convention and Visitors Bureau and the Port Authority have estimated the size of the local tourism industry by attributing specific shares of various industries to tourism and aggregating those segments. The Bureau’s study covers only the city proper, while the Port Authority’s study covers the metropolitan area, which also includes twelve nearby counties. Unfortunately, these measures are not tracked over time, nor are they available nationwide or for other cities based on comparable methodologies.

7. Clearly, these tourist-intensive industries service the local community as well as visitors. Moreover, other industries that are not included (particularly clothing and other retailers) also service tourists. Therefore, while employment and earnings can be used as a crude proxy for the relative importance of tourism, it should not be used as an estimate of the actual volume of tourism business.

8. Information on retail sales is drawn from the 1992 Census of Retail Trade and 1992 Census of Service Industries. Specific Standard Industrial Classification (SIC) codes include: eating and drinking places (58); souvenir and related retailers (5943, 5945-5949); amusement and recreation services excluding movie production (783, 784, 79); and museums, zoos, and galleries (84).

9. Here, metropolitan areas refer to Primary Metropolitan Statistical Areas (PMSAs) as defined by the Census Bureau. New York City’s PMSA includes the city’s five boroughs as well as Westchester, Rockland, and Putnam counties.
10. The Buffalo–Niagara Falls metropolitan area enjoys limited benefits from Niagara Falls’ status as a tourist destination because most of the attractions are in Canada. Still, while direct tourist expenditures are evidently modest, tourism may have a significant (but hard to measure) indirect effect on metropolitan Buffalo’s economy.

11. A tourist is more likely to have friends or relatives in the New York City metropolitan area because it is the most densely populated in the nation. According to the Port Authority’s 1992 study, 27 percent of both foreign and domestic tourists came to the New York City area to visit friends and relatives.

12. This interval was selected because it begins and ends at similar points in the business cycle: 1977 and 1994 were both years in which the city was emerging from severe recession.

References


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