

Tourism Demand Still Influenced by Financial Crisis

The full effect of the recent financial crisis is yet to be felt by the tourism industry in Hong Kong, according to the SHTM's Professor Haiyan Song, Ms Shanshan Lin and Mr Zixuan Gao. The researchers show that tourism demand from long-haul source markets is likely to decline in the near future, with the most optimistic recovery expected by 2011. Yet industry practitioners will be hearted to learn that demand from short-haul markets will be relatively unaffected, with arrivals from mainland China expected to continue increasing.

Demand Forecasting and Economic Shocks

Despite the rapid increase in demand, tourism around the world is still vulnerable to economic conditions. As tourism products and services are produced by a wide range of businesses, note the researchers, "the impact of economic conditions in both the destination and source markets tend to be far reaching". In particular, "economic shocks" such as those from the recent financial crisis, "can significantly affect tourism demand".

These shocks, or one-off events, are not always negative. The Olympic Games, for instance, is usually a positive shock whenever it is held. Yet, negative shocks, such as natural disasters and "man-made crises" are particularly troublesome. To give one recent example, the SARS epidemic in Hong Kong significantly reduced tourism arrivals. As tourism demand forecasts do not usually accommodate such shocks, projections that allow for planning and tourism promotion are adversely affected.

Given this difficult situation, the researchers admit that "incorporating the impacts of unexpected tourism shocks into forecasting models represents an obvious challenge for forecasters". The objective should be to generate accurate forecasts, regardless of the prevailing economic conditions.

A related consideration was to review the forecasts generated by the Hong Kong Tourism Demand Forecasting System (www.tourismforecasting.net) as the financial crisis played out. The researchers are part of the team responsible for the system, which is offered as public service by the Hong Kong Polytechnic University through collaboration between the SHTM and the Public Policy Research Institute.

Ten Source Markets Considered

To gain the most accurate idea of how the financial crisis affected demand for tourism in Hong Kong, the researchers turn to the city's 10 most important source markets. In the period immediately before the crisis, 2003-2007, the most significant tourism generating countries and regions were mainland China, Taiwan, the United States, Japan, Macau, South Korea, the United Kingdom, Australia, the Philippines and Singapore.

As the demand for tourism varies seasonally, the researchers draw on monthly and quarterly data from the Hong Kong Tourism Board, the Census and Statistics Department and the International Monetary Fund. They consider tourist income, the price of tourism products, the price of substitute tourism products, and one off socio-economic events.

An important caveat is due here. These factors exclude tourism marketing expenditure and travel costs from the source markets. Although both would be "expected to exert important influences on tourists travelling to Hong Kong", the researchers explain that data on them are not always available.

Nevertheless, the information that is available allows them to build a picture of how sensitive tourism demand was to the four factors they can measure from

the first quarter of 1985 through to the fourth quarter of 2006, with a view to projecting the results ahead to the period from 2009 to 2012. An understanding of such “demand elasticities”, the researchers note, “is important for tourism policy making and long-term investment in the infrastructure and superstructure development of a destination”.

Effect of the Financial Crisis

Assuming that the financial crisis lowered GDP in the source markets by 1-3% in 2009 and 2010, followed by a recovery in 2011 and 2012, the researchers create four demand scenarios that range from the most optimistic to the most pessimistic. The first two scenarios (most pessimistic and pessimistic) consider how the economic crisis affected income levels in the source markets but keep the price of tourism products unchanged, and this assumption is relaxed in the other two scenarios.

Not surprisingly, the income level in the source market and the price of tourism in Hong Kong most influenced tourism demand in Hong Kong from 1985 to 2006, with the substitute price for tourism products also playing a role. The researchers note that changes in demand from Australia, mainland China, South Korea and the United States over the period indicate that “international travel is a luxury product for tourists from these countries”. For these four source markets, long haul travel was particularly affected by the financial crisis.

However, in an encouraging finding for industry practitioners, the other six source markets were relatively unaffected by changes in income levels. In other words, tourists from Japan, Macau, the Philippines, Singapore, Taiwan and the United Kingdom are unlikely to reconsider visiting Hong Kong if economic conditions are not ideal.

Forecasting Future Demand

Looking to the forecasts, the most pessimistic scenario sees tourism demand declining from 2009 to 2012, but the most optimistic sees a recovery from 2011 on. For the source market with the highest level of demand, mainland China, the market share of arrivals is expected

to increase in all scenarios, and the US market share will decline in the most pessimistic and optimistic scenarios.

These predictions perform relatively well against statistics released by the Hong Kong Tourism Board for 2009, with the forecasts for Japan, the Philippines and Singapore almost the same, and those for South Korea, the United Kingdom, the United States and mainland China less than 10 per cent different.

Given that the researchers identify “a strong relationship between Hong Kong tourism and both income levels in origin markets and the price of tourism products in Hong Kong”, Hong Kong’s policy makers will need to monitor the economic conditions in source markets to ensure that their decision making is appropriately focused. With sufficient attention paid to external factors, local policy can be adjusted to best take advantage of the prevailing demand.

Points to Note

- Tourism demand is vulnerable to adverse economic ‘shocks’.
- The recent global financial crisis affected levels of demand in Hong Kong.
- Demand from long-haul markets was most affected, and will continue to be until at least 2011.
- Tourism policy makers should be mindful of the economic conditions in source markets.

Song, Haiyan, Lin, Shanshan, Zhang, Xinyan and Gao, Zixuan (2010). Global Financial/Economic Crisis and Tourist Arrival Forecasts for Hong Kong. *Asia Pacific Journal of Tourism Research*, Vol. 15, No. 2, pp. 223-242.