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The effect of the economic crisis on tourist behaviour

GORAZD SEDMAK
University of Primorska
Faculty of Tourism Studies Portorož – TURISTICA, Slovenia
gorazd.sedmak@turistica.si

TANJA PLANINC
University of Primorska
Faculty of Tourism Studies Portorož – TURISTICA, Slovenia
tanja.planinc@turistica.si

Abstract

In 2008, the world was struck by the largest economic crisis since the Great Depression of the 1930s. The collapse of several branches of industry, growing rates of unemployment and uncertainty also affected the flow of tourism. While for some tourist destinations, the decrease of the tourist arrival numbers was almost fatal, others did not suffer any substantial losses. The reason lies in the different income elasticity of demand in various tourist segments and in the very complex dynamics of the flow of tourism. Since a part of the demand side only exchanged destinations traditionally visited with the nearer and/or cheaper ones, a partial loss of one segment in these destinations was replaced by visitors usually visiting more distant destinations. The results of a survey carried out on a sample of (potential) Slovenian tourists are presented in the article. Reactions to the ongoing crisis were measured and compared for different segments of interviewees. Understanding their decision-making patterns can help the tourism industry and the destination management organizations in developing tourism products that are less sensitive to changes affecting income.

Key words: tourism, consumer behaviour, economic crisis, income elasticity

1 Introduction

It has already become clear that the financial and economic crisis will have a serious and long-lasting negative impact on the tourism industry (Okumus et al., 2003). Investigations into the impact of crises on the tourism industry were quite rare and partial in their analyses in the past (Smeral, 2009). Certainly, one important reason for this is that none of the previous crises was global with such an all-encompassing impact. The tourism industry is therefore in urgent need of information and knowledge to help with decision making and devising strategies to effectively respond to the current situation (Papatheodorou, Rossello & Xiao, 2010).

The present crisis was triggered in the U.S in 2007 by the crisis in the real estate sector and later with the international credit crunch and it struck the euro zone in the second half of 2008. Eastern Central Europe followed the downhill slide at the start of 2009 (Gulcin Ozkan & Filiz Unsal, 2010). After a good start, with worldwide growth in international arrivals averaging nearly 6% in the first six months of 2008, demand fell sharply – by 1% between July and December 2008. This trend has intensified in 2009 when international tourist arrivals fell by estimated 8-9% during the first six months of the year. All regions (except Africa) recorded a decline in arrivals; Europe and the Middle East have been particularly affected (UNWTO, 2010). Real travel & tourism economy GDP growth for the world as a whole is expected to be just 0.5% in the year 2010, before accelerating to 3.2% in 2011 due to high unemployment and cut backs on the holiday expenditure of households and curtailed corporate budgets for travel. Tourism earnings are expected to suffer more than arrivals as consumers tend to choose nearer destinations and for shorter periods of time. All around the globe, small and medium enterprises, which make up the bulk of the tourism sector, face increasing difficulties as demand declines and access to credit becomes harder (UNWTO, 2010).

According to the International Monetary Fund (2010), Slovenia's economy has been hit hard by the global crisis. The Slovenian economy shrunk by 7.8 percent in 2009 and this was the largest fall in the euro area. As a response to the global crisis, authorities adopted a number of stimulus measures in 2009. The economy is expected to recover slowly but uncertainty still persists (IMF, 2010). Thus, the forecasts of the growth for the travel & tourism economy at the average rate 4.4% per annum over the coming 10 years, made by the World Travel and Tourism Council (Cockerell, 2010) are uncertain.

A financial crisis affects consumer behaviour due to the growing threat of unemployment, loss of income, uncertainties in assessing values of assets and savings etc. If the crisis is a short-term one, people usually finance their travel from their savings. If the crisis lasts for a longer period of time, they tend to cut down their holiday expenditures by adapting the duration and type of holidays or even the destination. However, if things go really bad, they simply make it without a holiday trip (Smeral, 2009). Morley (1998) explains this phenomenon by using discrete choice theory and the threshold income above which a specific destination is chosen over the option to stay at home. Interestingly, notable differences in holiday-taking behaviour in times of crises were found between nationalities (Ryan, 2003). But despite the ampleness of tourist decision making research no single unifying theory has emerged so far that would explain tourism decisions in all situations.

The aim of this present study was to get an insight into (potential) tourist decisions in times of financial and economic crisis. The large majority of previous research on impact of crises on tourism demand was based on time-series macroeconomic secondary/statistical data (Garin-Munoz, 2009; Song & Witt, 2000). This kind of research can provide only an indirect understanding of tourists' decisions/behaviour in times of economic crisis. Furthermore, it cancels out the diversity and heterogeneity of consumer behaviour (Alegre & Pou, 2004). Our research was, however, founded on primary data acquired by the survey on a sample of potential Slovenian tourists. They were asked about their reactions to the present changes in the economic situation in Slovenia and whether their travel behaviour would change their income dropped.

This paper is organized as follows. In the next sections we describe the theoretical basis for tourism behaviour and income elasticity of tourism demand. These are followed by the presentation of the study carried out in Slovenia, interpretation of results, discussion and conclusion.

2 Tourists' consuming behaviour

Tourists' consuming behaviour seems to be a constant decision-making process. It is a very complex concept, full of interrelated factors. Numerous models have been suggested for an easier understanding of the buying decision process (Sirakaya & Woodside, 2005). These simplified versions of relationships of the various factors influencing consumer behaviour patterns give us an insight into which determinants influence tourism flows. Besides personal traits, e.g. lifestyle, personal motivators, attitudes, existing knowledge and experience etc., also disposable income, work and family commitments, political restrictions and other hindrances make up the "customer decision-making framework" (Swarbrooke & Horner, 1999).

Tribe (2008) approaches tourists' consuming behaviour through maximization of the satisfaction function. By choices about how much time to spend on holidays and where to go, choosing between different sets of goods and services bought in the destination tourists try to maximize their satisfaction considering time and money constraints. Of course, tourists have different needs, incomes, tastes, lifestyles etc. and can therefore achieve satisfaction in numerous different ways. If factors affecting their behaviour change the holidays choices will probably change, too. In some cases this change implies choosing a different destination or even giving up holidays all together. These decisions are the turning point that affects tourism demand in destinations. Thus, understanding how potential tourists react to changes is of crucial importance for the success of tourism destinations.

No theoretical consensus on tourism demand has been reached so far. There is, however, a set of predictive variables, such as prices, prices of substitute destinations, level of income, advertising expenditure and consumer tastes which are almost indispensably included in all tourism demand models (Song & Witt, 2000). Income is generally included in the tourism demand functions as a key explanatory variable (Crouch, 1996). In times of crises when the level of disposable income for tourism activities decreases, a drop in tourism demand is usually expected. However, that is not necessarily true for all destinations as tourist flow dynamics are very complex. In times of crisis, a part of the demand side exchanges destinations traditionally visited with the nearer and/or cheaper ones. Thus, a partial loss of one segment in these destinations is replaced by visitors usually visiting more distant destinations. Income elasticity of demand can be used for a better comprehension of this dynamics.

In Table 1, information on tourism travel of domestic population in Slovenia is presented. Data in the year before the crisis and data for 2009 are compared. It can be noticed that the share of private trips made abroad and the average length of trip have decreased in 2009, which is in line with the theory (Smeral, 2010).

Table 1: *Tourism travel of domestic population*

	2007	2009
percentage of the resident population aged 15 or more who went on tourist, private or business trips	63.6	59
percentage of private trips made in Slovenia	44.7	51
percentage of private trips made abroad	55.3	49
length of average private trip (nights)	4.7	4.5
length of average private trip in Slovenia	3.1	2.9
length of average private trip abroad	6.1	6.1

Source: SURS, 2010b

3 Income elasticity of demand

Tourism demand elasticity is a measure indicating how percentage change in the explanatory variable (usually income or price) produces a certain percentage change in tourism demand and can be measured in different units including expenditure, arrivals and overnights. While price elasticity implicitly shows the necessity of goods, number of substitutes, price-usefulness ratio, time flexibility of purchase and consumers' awareness, income elasticity enables us to determine whether goods or a tourism destination is normal/superior or inferior. In the latter case, income elasticity demand is negative, showing that consumers tend to replace the goods/destination if their income increases (Tribe, 2008). In the past, estimated income elasticity was typically above unit suggesting tourism travel is a luxury product (Crouch, 1996).

Although demand elasticity models suffer from some deficiencies (e.g. elasticity can vary considerably over time, the structure of the model significantly affects estimates etc.), they remain one of the most popular forecasting tools in international tourism (Crouch, 1996; Frechtling, 2001; Wang, 2009). It has to be noted, however, that practically all econometric estimates of income elasticities of tourism demand were obtained in periods of sustainable economic growth, and may therefore not be suitable for the explanation of the demand function and forecasts in times of crises. Smeral (2009) claims that the decrease in tourism demand caused by diminished income during the contractive phases is due to uncertainty about the future steeper than the increase in the demand caused by the rise in income in times of prosperity. On the other hand, Ryan (2003) argues that people are very reluctant to forgo their annual holidays and that income demand elasticity is lower in periods of recession than in times of economic growth. The reason might be sought in changes of social values – tourism has namely lost its luxury character and it is rather regarded as a necessity nowadays (Mieczkowski & Crouch, 1996). Demand for long haul holidays is likely to be more income elastic than demand for closer destinations (Couch, 1996), and income elasticity of tourism demand is supposed to be lower for people with a higher education and income (Alegre & Pou, 2004). On the other hand, Morley (1998) claims that income elasticity tends to be lower for people with low and high incomes, while it is relatively high for those with middle range incomes. Finally, he draws the conclusion that income elasticities change considerably over time due to changes in incomes, prices, and fares.

4 Methodology

In order to check how the present crisis affected the decisions about where to spend one's main holidays, 500 randomly chosen potential tourists throughout Slovenia were personally asked to complete a structured questionnaire. The survey was carried out by students of the Faculty of Tourism Studies – Turistica in the period from March to June 2010. Excel was used for the analysis of the results. Beside the usual socio-demographic data, interviewees were asked to answer the following questions:

- Where did you usually spend your main holidays in the past?
- Have you been personally affected by the crisis?
- How has the crisis changed your travel behaviour?
- How would your travel behaviour change if your present income decreased by 10%? (Considering the depth of the present crisis such a drop in income was estimated to be realistic.)

Our research questions were:

- To what extent has the crisis influenced the travel behaviour of potential Slovene tourists?
- What are the reactions to the current crisis?
- Are there any significant differences between tourist segments?
- What is income elasticity of demand in times of crisis?

The research was limited to holiday travel behaviour which represents the main motivation for tourism travel (SURS, 2010a).

5 Results

After the preliminary analysis of the results, 30 faulty questionnaires were excluded from further analysis. In Table 2, the structure of travel habits before the crises is presented. The majority – more than half interviewees (55.53%) – stated that they spent their holidays in neighbouring countries (mostly Croatia) before the crisis.

470 interviewees answered the question regarding the impact of the crisis on their personal lives. In Table 3, it is shown that approximately 60% of interviewees were at least indirectly personally affected by the crisis while 40% were not. Only 6.17% of interviewees claimed that they were strongly affected by the crisis.

In Table 4, changes in travel behaviour due to the crisis are shown for all interviewees and separately for those affected by the crisis. Interestingly, more than a half of all interviewees stated that the crisis has an impact on their travel behaviour. For the sub-group affected by the crisis, the share is as high as two thirds. A significant portion (23.55%) of all interviewees stated that they would go to the same destination but for a shorter time; a good 15% would take several short holidays; 7.56% would go to a destination less remote; and 5.52% would forgo their holidays. For the sub-group affected by the crisis, almost 10% of interviewees chose the last option.

In Table 5, answers to the hypothetical question "How would your travel habits change if your present income decreased by 10%?" are shown. Only 36.69% of interviewees who were personally affected by the crisis would not change their travel habits, while this percentage is 69.38% for those not affected by the crisis. In the majority of cases interviewees would only shorten the duration of their holidays (37.28% and 16.25% respectively).

Table 2: *Where did you usually go on holidays in the past?*

N=467	%
We spent our holidays in neighbouring countries	55.53
We spent our holidays in Slovenia	15.53
We went to "Europe or Mediterranean countries"	14.04
We went on several shorter holidays	5.96
We went to another continent	4.26
We stayed at home	2.98
Other	1.06

Table 3: *Are you personally affected by the crisis?*

N=470	%
No	31.70
Partly / indirectly	30
Yes, but not significantly	29.79
Yes, heavily	6.17
Conditions are even better now	2.34

Table 4: *How did the crisis changed your travel habits?*

	All Interviewees N=344	Interviewees affected by the crisis* N=169
Our travel habits didn't change	46.22%	33.14%
We will go to the same destination, but for less time	23.55%	28.40%
We will take several shorter holidays	15.12%	15.98%
We will go to a less remote destination	7.56%	7.10%
We will not go on holiday	5.52%	9.47%
Other	2.03%	1.78%

**Third and fourth group from Table 3*

Table 5: How would your travel habits change if your present income decreased by 10%?

N=329	Interviewees, affected by the crisis* N=169	Interviewees, not affected by the crisis or are now even better** N=160
Our travel habits wouldn't change	36.69%	69.38%
We would go to the same destination, but for less time	37.28%	16.25%
We would take several shorter holidays	13.02%	7.5%
We would go to a less remote destination	4.14%	3.13%
We would not go on holiday	8.86%	3.13%

**Third and fourth group from Table 3, **First and last group from Table 3*

Table 6: *Income elasticity – assuming the decrease of present income by 10%*

	All Interviewees N=453	Interviewees, affected by the crisis* N=169	Interviewees, not affected by the crisis** N=160
Income elasticity	2.0	2.6	1.4

**Third and fourth group from Table 3, **First and last group from Table 3*

Based on the answers from Table 5, income elasticity of demand was calculated for the whole sample and for the two segments (being affected by crisis or not) separately. Those interviewees who would not go on holiday or who would change the usual destination for a different one were taken into consideration for the "change of demand" quantity. The income elasticity coefficient for the whole sample is 2, there are however, as expected, substantial differences between the two sub-groups.

6 Discussion

In this study, carried out in Slovenia in 2010, we tried to get an insight into the potential tourist decisions in times of financial and economic crises. Furthermore, differences in changes in tourism behaviour were compared between the two segments of tourists – those who were personally affected by the crisis and those who were not. Finally, income elasticity of demand coefficient was calculated for a hypothetical scenario of general 10% decrease of income.

The results show that approximately 60% of interviewees were at least indirectly personally affected by the crisis while 40% were not. More than a half of all interviewees stated that the crisis will somehow change their tourism behaviour. One fourth of the sample will go to the same destination, but for shorter time, 15% will take several short holidays instead of one main holiday, while 7.56% and 5.52%, respectively, will travel to a less remote destination or even forgo their holidays altogether. As expected, changes are more intense for the segment affected by the crisis – especially regarding the last option.

The differences in impact of the crises on the tourism behaviour of the two segments were confirmed by the hypothetical scenario of general 10% fall of income, too. A considerable difference between the income elasticity of demand of two groups was also identified. Both coefficients were, however, positive and more than the unit, showing Slovene tourists are generally very sensitive to income changes. At the same time they show relatively low loyalty to a tourism destination.

The main contribution of the paper is that the influence of the crisis on tourism behaviour was measured by the primary research data. This type of research also allowed for the hypothetical scenario approach and the comparisons between the segments.

The suggestions for DMO's and tourism industry deriving from the results would be the following. They should concentrate their marketing efforts on closer markets, those which are relatively easily to reach by car or by other low cost means of transportation. A higher flexibility of tourism supply is needed in times of crisis as people are not willing or capable of making advance reservations and payments due to financial insecurity. New package products which offer shorter duration and/or lower prices should be prepared. If the tourism industry adapts suitably to new circumstances, the economic crisis can in fact represent an opportunity to "steal" a part of the demand to competitive destinations.

Finally, it would certainly be interesting to repeat this study in times of prosperity and compare the results. Such a comparison could make a considerable contribution to the body of knowledge in the field of tourists' consuming behaviour.

Vpliv gospodarske krize na odločitve turistov

Povzetek

Leta 2008 je svet prizadela največja ekonomska kriza po tisti iz 30. let prejšnjega stoletja. Velike težave nekaterih gospodarskih panog in rastoča stopnja brezposelnosti so vplivale seveda tudi na turistične tokove. Medtem ko je bil padec prometa za nekatere turistične kraje skorajda usoden, druge niso utrpele znatne škode. Razlog za te razlike je iskati v različni dohodkovni elastičnosti povpraševanja pri različnih segmentih turistov in kompleksni dinamiki turističnih tokov. Ker se je del povpraševanja zaradi krize odločil obiskati manj oddaljene ali cenejše turistične kraje, kot je prvotno načrtoval, je padec povpraševanja v enem turističnem kraju pomenil povečanje povpraševanja v drugem. V članku so predstavljeni rezultati raziskave, ki je bila izvedena na vzorcu slovenskih (potencialnih) turistov. V raziskavi smo merili in nato primerjali segmente glede na to, kakšne so njihove reakcije na krizo. Razumevanje vzorcev turističnega potrošniškega obnašanja je lahko v veliko pomoč turističnim podjetjem in organizacijam destinacijskega menedžmenta, saj jim omogoča oblikovanje proizvodov, ki so manj občutljivi za nihanje dohodka.

Ključne besede: turizem, potrošnikove odločitve, gospodarska kriza, dohodkovna elastičnost

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