

An hourglass-shaped graphic with a globe inside. The top bulb is dark blue, and the bottom bulb is light blue. The globe is centered in the narrow neck of the hourglass. The text is overlaid on the graphic.

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February 2, 2009

Congressional Research Service

Report RL32016

*The Tourism Industry and Economic Issues Affecting It*

M. Angeles Villarreal, Resources, Science, and Industry Division

Updated July 29, 2003

**Abstract.** In the 108th Congress, two measures have been passed and several bills introduced to provide assistance to the airline industry and to help promote travel and tourism. Some analysts believe that travel-related industries will recover from the events surrounding the September 11, 2002, terrorist attacks and the 1991 Gulf War. Others believe that the combination of factors have been very damaging to the industry for the long term.

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# CRS Report for Congress

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## The Tourism Industry and Economic Issues Affecting It

**July 29, 2003**

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# The Tourism Industry and Economic Issues Affecting It

## Summary

The measure of a country's international tourism receipts, also referred to as travel services exports, is the total amount of spending by visitors to that country. The United States is, by far, the world's leader in tourism receipts, accounting for approximately 16% of the world's total. The measure of a country's international tourism expenditures, also referred to as travel service imports, is the amount of spending by its visitors in foreign countries. The United States also leads the world in tourism expenditures. Travel services are a significant export in the U.S. economy, accounting for 32% of all private services exports.

The September 11 attacks, the downturn in the U.S. economy, the U.S. war with Iraq, and the outbreak of the SARS virus have affected sales and profitability of a number of industries, but travel and tourism are among the most affected industries. The airline industry has been struggling since the events of September 11, with nine of the ten largest U.S. carriers experiencing heavy losses over the past two years. The hotel industry is reporting its lowest occupancy rate in more than a decade. Travel agencies have been facing difficulties since the mid-1990s, primarily due to the increase in competition from online travel sites, but also from the factors mentioned above.

After September 11, 2001, the number of global travelers decreased for the first time since the 1980s. As a result, U.S. tourism receipts decreased by nearly 12% in 2001, and U.S. expenditures abroad decreased by 7%. Employment levels in the United States have fallen by a higher percentage in travel and tourism related industries than in most other major industries. Since the end of 2000, employment in travel-related industries declined by nearly 390,000 jobs, representing over 25% of the nation's non-farm job losses in that time period.

Some analysts believe that travel-related industries will recover from these events, as they have from past events, such as the 1991 Gulf War. Others believe that the combination of factors have been very damaging to the industry for the long term. They believe that recovery could be considerably slower than it has in the past, and that recovery may be more challenging for travel-related industries than for the economy as a whole. The travel industry, for example, has voiced concerns that impending regulations on visa requirements for visitors entering the United States are being implemented too quickly and could discourage international travel to the United States.

In the 108<sup>th</sup> Congress, two measures have been passed and several bills introduced to provide assistance to the airline industry and to help promote travel and tourism. The FY2003 omnibus appropriations act (P.L. 108-7, H.J.Res. 2) includes a one-time appropriation of \$50 million for an international marketing campaign to encourage individuals to travel to the United States. The Emergency Wartime Supplemental Appropriations Act, 2003 (P.L. 108-011) includes a provision for \$2.9 billion in assistance to the airline industry. H.R. 2002 would establish a pilot program for the promotion of travel and tourism in the United States. This report will not be updated.

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# The Tourism Industry and Economic Issues Affecting It

## Background: Importance of the U.S. Travel and Tourism Industry

The United States is by far the world leader in international tourism receipts, or the amount of spending by international travelers in a host country. The United States is also the world leader in international tourism expenditures, or the amount of spending by U.S. travelers abroad.<sup>1</sup> The United States accounted for approximately 16%, or \$88 billion, of world international tourism receipts in 2002. In international arrivals, or the number of visitors from a foreign country, the United States ranks third in the world, after France and Spain, with a world market share of 6.6%.

The tourism industry has been facing difficulties in recent years because of a combination of factors. The September 11 attacks, the downturn in the U.S. economy, the U.S. war with Iraq, and the outbreak of the SARS virus have affected sales and profitability of a number of industries, but travel and tourism related industries are among those most severely affected. After September 11, 2001, the number of international travelers throughout the world decreased for the first time since the 1980s. Consequently, U.S. international tourism receipts decreased by nearly 12% in 2001, and U.S. expenditures abroad decreased by 7%. Employment levels in the United States have fallen by higher amounts in travel and tourism related industries than in other major industries, with a loss of nearly 400,000 jobs. Data from the first quarter of 2003 continue to show declining employment levels in travel-related industries.

In the 108<sup>th</sup> Congress, two measures have been passed and several bills have been introduced to provide assistance to tourism related industries. The FY2003 omnibus appropriations act (P.L. 108-7, H.J.Res. 2) includes a one-time appropriation of \$50 million for an international marketing campaign to encourage individuals to travel to the United States. The Emergency Wartime Supplemental Appropriations Act, 2003 (P.L. 108-011) includes a provision for \$2.9 billion in assistance to the airline industry. H.R. 2002 would establish a pilot program for the promotion of travel and tourism in the United States.

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<sup>1</sup> International tourism receipts and expenditures are measured by the amount of spending by visitors in a foreign country. The measure of a country's international tourism receipts, also referred to as travel services exports, is the total amount of spending by visitors to that country. The measure of a country's international tourism expenditures, also referred to as travel service imports, is the amount of spending by its visitors to other countries.

## U.S. and World International Arrivals

The World Tourism Organization/United Nations Recommendations on Tourism Statistics<sup>2</sup> defines tourism as the activities of persons traveling to and staying in places outside their usual place of residence for not more than one consecutive year for leisure, business, and other purposes. This section describes recent trends in the number of international arrivals to the United States and other countries.<sup>3</sup>

The United States is among the top three tourism destinations in the world. In 2001, France had 76.5 million visitors, followed by Spain with 49.3 million visitors, and the United States with 45.5 million visitors.<sup>4</sup> International arrivals to the United States totaled nearly 42 million in 2002. The highest number of arrivals to the United States came from Canada (13 million), followed by Mexico (9.8 million), the United Kingdom (3.8 million), and Japan (3.6 million).

In 2001, international arrivals to the United States decreased by 11% from the previous year, while international arrivals worldwide decreased by only 0.6% (see Table 1). This marked the largest decline for a single year in the history of tracking arrivals to the U.S.<sup>5</sup> In 2002, international arrivals to the United States continued to decline, falling by 7% from the previous year. Visitation levels from Canada, the United Kingdom, Japan, Germany and France all decreased in 2002. Mexico and South Korea were the only two countries to register growth in arrivals to the U.S. in 2002, and these increments were only marginal. Total visitation from Mexico increased 0.5% in 2002, while that from South Korea increased 3.4%.<sup>6</sup>

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<sup>2</sup> The World Tourism Organization is an international organization associated with the United Nations, and serves as a global forum for tourism policy issues. Its membership includes 139 countries, seven territories and some 350 Affiliate Members. See World Tourism Organization website, [<http://www.world-tourism.org>].

<sup>3</sup> The unit of measure generally used to quantify the volume of international tourism for statistical purposes is the number of international tourist arrivals. International arrival data refer to the number of arrivals and not to the number of persons. One person who makes several trips to a certain country during a time period will be counted as a new arrival each time, and a person who travels through several countries on one trip is counted as a new arrival each time. International visitors include overnight visitors, and same-day visitors.

<sup>4</sup> World Tourism Organization, *Tourism Highlights: 2002*. See [<http://www.world-tourism.org>].

<sup>5</sup> U.S. Department of Commerce, International Trade Administration, Office of Travel and Tourism Industries (OTTI), News Release, *Highlights of 2001 Data Release*, March 28, 2003.

<sup>6</sup> OTTI, "2002 Year End International Arrivals to the United States," April 17, 2003.

**Table 1. U.S. and World International Arrivals: 1992 - 2002**  
(Millions)

Arrivals	1992	1994	1996	1998	2000	2001	2002 <sup>a</sup>
U.S.	47	45	46	46	51	45	42
Rest of world	454	505	551	583	645	648	673
Total World	501	550	597	629	696	693	715
U.S. Share	9.4%	8.2%	7.7%	7.3%	7.3%	6.5%	5.9%

**Sources:** U.S. Department of Commerce, International Trade Administration, Office of Travel & Tourism Industries. World Tourism Organization.

<sup>a</sup>Preliminary

## U.S. International Trade in Travel Services

U.S. exports in travel services is measured by the amount of spending by foreign travelers in the United States, also referred to as U.S. travel receipts. The United States is by far the world leader in international tourism receipts (or travel services exports), followed by Spain and France. In 2001, the United States accounted for approximately 16% of world tourism receipts, well ahead of Spain (7.1% of total) and France (6.4% of total). U.S. imports in travel services is measured by the amount of spending by U.S. travelers abroad, which is also referred to as U.S. tourism expenditures. The United States is also the leader in imports in travel services, followed by Germany and the United Kingdom. In 2001, U.S. travel services imports totaled \$58.9 billion, while Germany's totaled \$46.2 billion, and the United Kingdom's totaled \$36.5 billion.<sup>7</sup>

Travel services exports (tourism receipts in the United States) are a significant export in the U.S. economy, accounting for 32% of all private services exports in 2002. The share of U.S. travel services exports, as a percentage of all private services exports, however, has fallen notably since 2000. Although this trend had been taking place since the mid-1990s, the recent downturn in the tourism industry caused the share of U.S. exports to fall even further (see Table 2). Total services exports decreased 4.1% in 2001, and then increased 3.8% in 2002. In comparison, travel services exports decreased 11.6% in 2001, and continued to decrease by 3.6% in 2002.

As shown in Table 3, the United States has had a surplus in international trade in travel services since 1990. The surplus rose from \$10.4 billion in 1990 to a peak of \$26.3 billion in 1996. The U.S. surplus in travel services had been declining since 1996. U.S. imports and exports in travel services both increased during the 1990s, but in the last part of the decade, imports (or U.S. expenditures abroad) increased at a higher rate than exports (U.S. travel receipts). In 2001 and 2002, both U.S. imports and exports in travel services fell, but U.S. exports fell by a higher percentage,

<sup>7</sup> World Tourism Organization, June 2002.

causing the surplus to fall further. The surplus in travel services decreased from \$26 billion in 1996 to \$7.5 billion in 2002, a 72% decrease. In comparison, the surplus in all private services trade decreased by 32% during the same time period.

**Table 2. U.S. Exports in Private Services and Travel Services (Tourism Receipts)**

	(\$ in billions)					
	1997	1998	1999	2000	2001	2002 <sup>a</sup>
<b>Export Growth Rates</b>						
All Services	7.4%	2.1%	5.2%	8.2%	-4.1%	3.8%
Travel Services <sup>b</sup>	4.5%	-3.1%	3.4%	9.0%	-11.6%	-3.6%
<b>Travel Services Exports as % Total Services Exports</b>						
	39.5%	37.5%	36.8%	37.1%	34.2%	31.8%

**Source:** U.S. Department of Commerce, Bureau of Economic Analysis, Online U.S. International Transactions Accounts Data, 2003.

<sup>a</sup> Preliminary

<sup>b</sup> Includes Travel and Passenger fares

**Table 3. U.S. Trade in Travel Services and Passenger Fares**

Year	Exports <sup>a</sup>		Imports <sup>a</sup>		Trade Balance	
	\$Billions	%Change	\$Billions	%Change	\$Billions	%Change
1990	\$58.3	24.3%	\$47.9	14.9%	\$10.4	100.0%
1991	\$64.2	10.1%	\$45.3	-5.4%	\$18.9	81.7%
1992	\$71.4	11.2%	\$49.2	8.6%	\$22.2	17.5%
1993	\$74.4	4.2%	\$52.1	5.9%	\$22.3	0.5%
1994	\$75.4	1.3%	\$56.8	9.0%	\$18.6	-16.6%
1995	\$82.3	9.2%	\$59.6	4.9%	\$22.7	22.0%
1996	\$90.2	9.6%	\$63.9	7.2%	\$26.3	15.9%
1997	\$94.3	4.5%	\$70.2	9.9%	\$24.1	-8.4%
1998	\$91.4	-3.1%	\$76.5	9.0%	\$14.9	-38.2%
1999	\$94.5	3.4%	\$80.5	5.2%	\$14.0	-6.0%
2000	\$103.0	9.0%	\$89.1	10.7%	\$13.9	-0.7%
2001	\$91.1	-11.6%	\$82.5	-7.4%	\$8.6	-38.1%
2002 <sup>p</sup>	\$87.8	-3.6%	\$80.3	-2.7%	\$7.5	-12.8%

**Source:** U.S. Department of Commerce, Bureau of Economic Analysis, Online U.S. International Transactions Accounts Data, 2003.

<sup>a</sup> Includes Travel and Passenger fares.



Travel and tourism receipts have fallen in other countries as well. In the United Kingdom, for example, tourism receipts fell by \$3.2 billion, or 16.7% in 2001. A small number of countries, however, such as Spain and China, had higher tourism receipts in 2001 than in 2000. China and other Asian destinations, however, have been heavily affected by the 2003 severe acute respiratory syndrome (SARS) epidemic, as well as the economic slowdown in the United States (see section below on employment).

The top five markets in 2001 which generated U.S. exports in travel and passenger fares, or expenditures in the United States by international travelers, were the following: United Kingdom (\$11.9 billion, down 16% from 2000), Japan (\$11.7 billion, down 16%), Canada (\$8.2 billion, down 7%), Mexico (\$6.3 billion, up 1%), and Germany (\$3.7 billion, down 27%).<sup>8</sup> Mexico was the only one of these countries that increased spending on travel and passenger fares to the United States in 2001.<sup>9</sup>

## Employment in Travel and Tourism Industries

Travel and tourism related industries have been particularly affected by the security concerns related to the September 11 attacks, the war with Iraq, and also by the slowdown in the U.S. economy. A significant number of jobs that have been lost since 2000 are in travel-related industries. Jobs directly related to travel and tourism include those in the hotel and lodging industry, amusement and recreation services, air transportation, and travel agencies. Other travel-related sectors include passenger rail transportation, cruise lines, food service, and rental cars. According to the U.S. Travel Industry Association of America (TIA), the U.S. travel and tourism industry employs 7.9 million people, or 6% of total U.S. employment, in direct travel-generated jobs. Direct travel-generated jobs include transportation, lodging, meals, entertainment, recreation, and incidental items. In direct and induced travel-generated jobs, TIA estimates that the travel and tourism industry employs about 18 million people.<sup>10</sup>

The data presented in this section focus on four industries that are directly related to travel and tourism, and for which employment figures are readily available. These include hotels and lodging, amusement and recreation services, air transportation, and travel agencies. The employment numbers presented in Table 4 are lower than the TIA estimates because they do not include employment in the food service industry, entertainment, or retail stores. As of March 2003, employment in hotels and lodging, amusement and recreation, air transportation, and travel agencies totaled 4.7 million people, or about 3.6% of total U.S. employment. The hotel and lodging sector had the highest employment level, with 1.8 million jobs, followed by amusement & recreation services, with 1.6 million jobs; air transportation, with 1.1 million jobs; and travel agencies, with 133 thousand jobs (see Table 4).

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<sup>8</sup> ITA, Office of Travel & Tourism Industries, *Highlights of 2001 Data Release*, March 28, 2003.

<sup>9</sup> Data for 2002 are not available by individual country.

<sup>10</sup> Travel Industry Association of America (TIA), *Tourism Talking Points*, May 2003.

**Table 4. Employment in Industries Related to Travel and Tourism**(Thousands)<sup>a</sup>

	1999	2000	2001	2002	1 <sup>st</sup> qrtr 2002 <sup>b</sup>	1 <sup>st</sup> qrtr 2003 <sup>c</sup>
Hotel and Lodging	1,848	1,900	1,870	1,798	1,811	1,779
12-month change	59	52	-30	-72	-100	-32
Amusement & Recreation Svcs	1,651	1,722	1,722	1,642	1,635	1,627
12-month change	57	71	0	-80	-117	-8
Air Transportation	1,227	1,280	1,266	1,161	1,172	1,144
12-month change	46	53	-14	-105	-123	-28
Travel Agencies	173	170	161	139	145	133
12-month change	0	-3	-9	-22	-25	-11
<b>Total Travel and Tourism Related</b>	<b>4,899</b>	<b>5,072</b>	<b>5,019</b>	<b>4,740</b>	<b>4,763</b>	<b>4,683</b>
<b>12-month change</b>	<b>162</b>	<b>173</b>	<b>-53</b>	<b>-279</b>	<b>-79</b>	<b>-203</b>
<b>Total Nonfarm</b>	<b>128,916</b>	<b>131,720</b>	<b>131,922</b>	<b>130,791</b>	<b>130,701</b>	<b>130,396</b>
<b>12-month change</b>	<b>3,051</b>	<b>2,804</b>	<b>202</b>	<b>-1,131</b>	<b>-1,760</b>	<b>-305</b>

**Source:** U.S. Department of Labor, Bureau of Labor Statistics.<sup>a</sup> All quarterly data are seasonally adjusted, with the exception of Travel Agencies. Seasonally adjusted data for Travel Agencies were not available.<sup>b</sup> Net change indicates net change from first quarter 2001.<sup>c</sup> Preliminary

Total U.S. employment has fallen since 2000, but travel-related sectors have experienced some of the highest job losses in the country. Data from the Bureau of Labor Statistics (BLS) show that between 2000 and the first quarter of 2003, employment in travel and tourism related industries declined by 389,000 jobs, or about 8%. The highest losses were in the air transportation sector, which experienced a decline of 136,000 jobs, or 11%. In the same time period, the hotel and lodging sector lost 121,000 jobs (6%), and the amusement and recreation services sector has lost 95,000 jobs (6%). Travel agencies experienced the highest percentage decrease, 22%, or 37,000 jobs.<sup>11</sup> During the same time period, total U.S. non-farm employment declined by 1.3 million jobs, or about 1% of total employment. Employment in the travel and tourism sectors listed in Table 4 represented nearly 30% of total non-farm job losses.

<sup>11</sup> Technology changes (i.e., use of internet reservations) may be a major contributing factor in declining number of travel agencies and related employment.

BLS data for April of 2003 continued to show workforce reductions in travel and tourism related sectors. In April 2003, employment in amusement and recreation services declined by 41,000 jobs, while employment in hotel and other lodging places decreased by 20,000.<sup>12</sup> Employment in air transportation also continued to decline, with a loss of 18,000 jobs. If all tourism-related industries are taken into account, including jobs in food service and retail, total job losses would be even higher. Morgan Stanley estimated that tourism-related industries have suffered a disproportionate number of job losses in 2003, accounting for nearly half the job losses in the nation over the first few months of 2003, even though they account for only one in ten private-sector jobs.<sup>13</sup>

In China and other Asian countries, the SARS virus has caused even further job losses in the travel industry. The Financial Times recently reported that nearly one million travel-related jobs (direct and indirect) were lost in early 2003 in China's Guangdong Province alone due to SARS and the war with Iraq. The article is based on an International Labor Organization (ILO) report that estimates that the SARS outbreak could cause a total job loss of five million, or 6% of total travel-related jobs, in the worldwide travel and tourism industry.<sup>14</sup> The ILO estimates that countries directly affected by the virus will lose more than 30% of travel-related jobs. Other countries in the Asia-Pacific region could lose 15% of travel-related jobs, and countries in the rest of the world could lose 5%. Recovery from the SARS-related downturn is underway, but the net long-term effects are still unknown.

## Uncertainties in Travel and Tourism Sectors

The effect of recent political and economic uncertainties on U.S. trade in travel services and on travel-related employment highlight the vulnerability of the travel and tourism industry to external factors. These factors have taken a toll on many business activities, but travel and tourism have been particularly affected, indicating that, in times of uncertainty, spending on travel and tourism is one of the areas most affected. Some analysts believe that travel-related industries will recover from these events, as they have past events, such as the 1991 Gulf War. Others believe that the combination of factors have been very damaging to the industry. They believe that recovery could be considerably longer for travel-related industries than it has in the past, and that recovery may be more challenging for travel-related industries than for the economy as a whole.

## Declining Industry Sales and Profits

The airline industry has been struggling since the events of September 11. Nine of the ten largest major U.S. airline carriers have had heavy losses over the past two years, with one of those carriers now operating in bankruptcy. The profitability of

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<sup>12</sup> United States Bureau of Labor Statistics, *News*, "Employment Situation Summary," April 2003.

<sup>13</sup> *The Economist*, "Another Bush, Another Jobless Recovery," May 10, 2003, p. 25.

<sup>14</sup> *Financial Times*, "Tourist Trade Fears 5 Million Job Losses," May 15, 2003.

airline companies has been affected by the combination of factors, including lower numbers of passengers and higher fuel costs. Many air carriers have had to cut flights and reduce prices, and, consequently, reduce their earnings forecasts. In March 2003, Standard & Poor's estimated that, even without the potential effects of the war with Iraq, the top ten carriers in the United States may lose about \$6.5 billion in 2003. Domestic airline capacity declined 4.4% in 2002, and 3.0% in 2001.<sup>15</sup> There are indications that, because of the challenges the airline industry is facing, the airline industry is potentially experiencing a period of major structural change.

The hotel industry is also facing challenges because of the decline in travel. Business travel has fallen more than 10% since 2000.<sup>16</sup> In 2002, preliminary data indicate that the hotel occupancy rate was expected to decline for the second consecutive year to 59.5%, the lowest level seen in more than a decade. Another key industry measure, revenue per available room, has also declined. After the September 11 attacks, the revenue per available room fell by 21.9% in September, 16% in October, and 14.7% in November 2001. For the entire year of 2001, the ratio declined by 6.9%. In 2002, the ratio declined for the second consecutive year, with a decline of 2.6%.

The American Society of Travel Agents (ASTA) recently stated that the drop in travel due to security concerns, the weak economy, and the SARS outbreak have been overwhelming for travel agents in the United States. Although the dollar volume of air sales by travel agencies still accounts for a majority of sales, it is declining considerably. Travel agency sales of air travel declined from \$76 billion in 2000 to \$57 billion in 2002, a 25% drop (see Table 5).<sup>17</sup> The SARS virus outbreak in Asia may cause sales to fall even further in 2003. Travel agency industry representatives expect a recovery in the industry, but also expect the recovery period to be considerably longer than the 18 month recovery time after the Gulf War.

The decline in travel agent sales caused by recent events comes in addition to the other challenges faced by travel agencies in recent years. Travel agencies have been facing increasing competition from online travel sites since the mid-1990s. As an example of this trend, a recent poll shows that the number of visitors who used a travel agent to plan their trip to Las Vegas declined for the fifth consecutive year in 2002. The percent of travelers using travel agent assistance for booking travel to Las Vegas decreased 15 percentage points between 1998 and 2002.<sup>18</sup> Another factor facing the industry is decreasing commissions. Airlines have decreased or stopped paying commissions on most tickets, which has also affected travel agency revenues. As a result of these challenges, travel agencies have taken measures such as merging to cut costs, moving from storefronts to home-based businesses, and trimming

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<sup>15</sup> Standard & Poor's Industry Surveys (S&P), *Airlines*, March 27, 2003.

<sup>16</sup> Barron's Online, "Time to Check in?," by Dimitra DeFotis, April 28, 2003.

<sup>17</sup> U.S. House of Representatives Subcommittee on Commerce, Trade, and Consumer Protection; Testimony by The American Society of Travel Agents (ASTA), "Travel and Tourism in America Today," April 30, 2003.

<sup>18</sup> *Travel Weekly*, "Visitor Poll Shows Web Influence Growing," June 2, 2003, p. 44.

payrolls. Many travel agencies have closed altogether. The number of agencies in the United States fell 10.5% in 2002 from the previous year.<sup>19</sup>

**Table 5. Travel Agency Sales of Air Transportation**  
(\$ in billions)

Type of Sale	2000	2001	2002	2000-2002 % Change
Domestic Air Fares	51	42	35	-31%
International Air Fares	25	22	22	-12%
Total Air Fares	76	64	57	-25%

**Source:** American Society of Travel Agents, April 2003.

One area in which demand for travel agencies remains high is in the booking of cruises. Travel agents book approximately 90% of cruises. Although bookings for cruises dropped in the first quarter of 2003, the cruise industry may be the one travel-related industries in which losses have not been as significant, at least in the short term. According to the ASTA, the cruise industry reports steadily increasing embarkations from North America, but at significantly diminished yields.<sup>20</sup> Cruise lines responded rapidly to the September 11 attacks by repositioning vessels from other parts of the world to North and South American locations. Many U.S. cruise ships are no longer traveling to Asia, the Eastern Mediterranean or Africa because of the security concerns.<sup>21</sup> Cruise lines also have been offering steep discounts on passenger cruises to lure travelers back on board. Bookings fell during the first part of 2003, but have increased since May. The lower prices, however, have resulted in lower net income for the industry.

## SARS Outbreak

The SARS outbreak has significantly affected the regional economy in Asia, which subsequently could affect other regions as well, especially in the tourist and retail trade sectors. International visitor arrivals to China could continue to fall, as could intra-regional visitor arrivals to China, Hong Kong, Singapore, or Taiwan. Global Insight, an economic and financial forecasting company in the United States, analyzed the possible impact of SARS and estimated that the tourism sector in Asia was more likely to be affected than others.<sup>22</sup> In the long term, the outbreak will likely have effects on other sectors of the economy, but the full effect may not be known

<sup>19</sup> *Rocky Mountain News*, "Tripped Up; Travel Agencies Join Forces, Trim Costs, or Check Out as Tourism Woes Take a Heavy Toll," April 2003.

<sup>20</sup> ASTA, pp. 2-3.

<sup>21</sup> *Intellcruise*, "Cruising Outlook for 2003," December 2002. See [<http://www2.i-cruise.com>].

<sup>22</sup> Global Insight website, *SARS Epidemic's Economic Impact on Asia*, undated. See [<http://www.globalinsight.com/Perspective>].

for some time. The tourism industry is one of the areas that has often been mentioned by Chinese officials as having been hit hard by the outbreak. A government official recently quoted government estimates that the SARS outbreak will cost China up to \$3.6 billion in tax revenues for 2003 and slow down the country's economic growth by at least 0.3%. The official acknowledged that the outbreak already had an "obvious negative impact" on the tourism, catering, and transportation sectors, and that the worst was yet to come.<sup>23</sup> Over time, the epidemic may take a toll on other business activities and may even affect investor confidence, resulting in weaker investment and a decline in foreign capital inflows.

The previously-mentioned International Labor Organization study on threats to employment in the travel and tourism industry analyzes some of the impacts of recent world events on travel-related employment. The report specifically addresses the potential impact of SARS on world travel, suggesting that, if the SARS virus is not contained, it has the potential to profoundly change the lifestyles of large populations, particularly in areas such as public transportation and retail, which are related to tourism. The report estimates that the travel and tourism business lost at least one-third of its activities in locations directly affected by SARS.<sup>24</sup> The threat of SARS appears to have diminished, according to newspaper accounts, but the ILO report brings attention to the vulnerability of the tourism industry if another SARS outbreak, or something similar, were to occur. Some newspapers have reported that there is a possibility of SARS reappearing next winter, which indicates that the full effects of the outbreak are yet unknown.

## **Economic Performance of Major Tourism Destinations in the U.S.**

The ten most visited tourism destinations in the United States are: New York, New York; Los Angeles, California; Miami, Florida; Orlando, Florida; San Francisco, California; Las Vegas, Nevada; Honolulu, Hawaii; Washington, D.C.; Chicago, Illinois; and Boston, Massachusetts. Some of these metropolitan areas, such as Orlando and Honolulu, have economies that rely more heavily on tourism because it is the major source of employment and earnings. Other metropolitan areas, such as Chicago and Washington, D.C., have more diversified economies and depend less on tourism. Nearly all of these cities experienced a decline in employment since late 2001, with recovery coming at a slower rate for some regions than others. The following paragraphs describe the recent economic performance in these metropolitan areas. The economic analysis presented below is primarily drawn from the regional economic analysis for the ten metropolitan areas reported by Global Insight, an economic and financial forecasting company in the United States.<sup>25</sup>

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<sup>23</sup> *Daily Report for Executives*, "China's SARS Outbreak Projected to Cost up to \$3.6 Billion in Tax Revenues for 2003," May 20, 2003.

<sup>24</sup> International Labour Organization, "New Threats to Employment in the Travel and Tourism Industry - 2003," May 13, 2003.

<sup>25</sup> *Global Insight*, U.S. Regional Online Analysis, [<http://www.globalinsight.com>], 2003.

- **New York, New York:** The major industries in the New York City metro area are finance, insurance, real estate, and business services. As a popular tourist destination, travel and tourism play an important role in the local economy. Since 2000, the metro area has experienced economic difficulties, and, consequently, decreasing employment levels. Employment in service-providing sectors, which include tourism and travel related sectors, represented a significant portion of the decline over this time period, with a loss of 37,300 jobs. Employment in the metro area is expected to improve gradually through 2005, with much of the rebound expected in service industries.
- **Los Angeles, California:** Los Angeles has a broad-based economy and ranks among the nation's top three metro areas for employment in the service industry, of which travel and tourism related sectors are a part. Other major industries in the area include aerospace, business services, and manufacturing. Entertainment services industries, such as Walt Disney and Universal Studios, are among Los Angeles' major employers. Employment in the Los Angeles metro area decreased 1% in 2002. While most service sectors have been showing a slow recovery in 2003, leisure and other services have been the source of most recent job gains in the area. In 2004, the economy is expected to grow to a more stable position.
- **Miami, Florida:** Major industries in the Miami metro area include health-care services, transportation services (airline and cruise ship companies), and biomedical manufacturing. Three of the ten largest employers in the Miami metro area - American Airlines, Royal Caribbean, and Carnival Cruise Lines - are in travel and tourism related sectors. Miami's employment levels decreased 0.7% in 2002, but have been improving in 2003. Much of the growth is due to service-producing sectors, including leisure and hospitality services. Although employment levels are expected to increase through 2004, the Miami metro area's unemployment level remains high at 7.3%.
- **Orlando, Florida:** The economy of Orlando, Florida is highly concentrated in the tourism industry. The Disney theme parks, Universal Studios, and Sea World and other attractions bring in nearly 40 million tourists a year. Travelers to the area are responsible for more than \$15 billion in direct spending in the local economy every year. Tourism has contributed to a strong service sector as well. About 43% of employment in the area is in service-related jobs, including hotels and lodging, and amusement and recreation services. After a number of years of economic growth, the Orlando economy experienced a downturn in 2001 and 2002. The economy is expected to recover in 2003, with stronger growth projected for 2004. The strongest growth is expected to come from the service sector, which is expected to average 2.6% in employment growth for the period of 2003 to 2007. U.S. residents are expected

to start traveling again, especially within the United States, which would benefit Orlando's economy.

- **San Francisco, California:** The primary industries in the San Francisco metro area are in multimedia, biotechnology, and financial services. The area also has a strong tourist industry. One of the ten major employers in the area is in retail trade, a tourism-related sector. The area has plans for a major terminal for cruise ships, which will include berths designed to accommodate two cruise ships simultaneously, and retail and entertainment space. In addition, the area has plans for expanding professional sporting events which is expected to increase visitors to the area. The San Francisco economy has not performed well in the last few years, mostly because of the slowdown in the high-tech industry, and not because of issues related to tourism. In the first quarter of 2003, the leisure service sector was one of the few sectors that showed signs of stability. Projections indicate that employment growth rates in the region will not return to positive numbers until 2004. Service industries are expected to be a source of economic growth in coming years.
- **Las Vegas, Nevada:** Gaming and tourism are the dominant industries in the Last Vegas economy. Over 25% of the work force is directly involved in the hotel and gaming industry. Seven of the largest employers in Las Vegas are hotels and casinos. The September 11 events resulted in a considerable decline in visitor volume. After a growth rate of 10.5% in 1999 and 6.0% in 2000, visitor volume decreased 2.3% in 2001. Recovery has been slow. In April 2003, visitor volume was 1.5% below the April 2002 levels, but up slightly since the beginning of 2003. Hotel occupancy rates in April 2003 were 86%, 1.5 percentage points below a year earlier. Despite the slowdown, expansion plans for hotel and casino operations in Las Vegas continue. In 2003, existing hotels plan to add 3,800 rooms, while several other hotel expansion projects are planned for coming years. The Las Vegas metropolitan area experienced above-average economic growth for several years, with the average annual rate for the years 1997 to 2002 registering 4.5%. Employment growth rates began to improve in the last part of 2002. In the leisure and hospitality sector, employment registered some growth in 2002, which has continued into 2003. Employment growth is expected to continue to increase in 2004. Visitor volume also is expected to increase as the economy recovers, which will increase employment in the service-providing sectors.
- **Honolulu, Hawaii:** The Honolulu metropolitan area encompasses the entire island of Oahu, and accounts for over 75% of Hawaii's non-farm jobs. Tourism is the major industry in the metro area's economy, with three of Honolulu's nine largest employers in tourism-related sectors. Two employers, Outrigger Hotels & Resorts and Kyo-ya Co., are in hotel services and retail sectors. The other,



Hawaiian Airlines, is an airline company. Other industries in the metro area include food processing and commercial real estate. After 2001, Honolulu's economy experienced a slowdown, with the tourism related sectors among the most affected. Tourism sectors experienced a decline in employment after the September 11 terrorist attacks, but, since October 2002, employment growth has been recovering. In March 2003, employment levels in the service-providing sectors have increased to levels near those in late 2000 and early 2001. The unemployment rate in Honolulu was 3.2% in March, 2003, well below the national rate of 5.8%.

- **Washington, D.C.:** Washington, D.C. is a major destination for tourists and business travelers. The concentration of convention and conference locations in the metro area draws a considerable amount of activity. Washington recently completed a large convention center and opened 12 new hotels in 2002. The completion of the new Washington Convention Center is expected to provide the local economy with \$1.4 billion in annual earnings. As the nation's capital, the economy in the Washington, D.C. metro area has a high number of government jobs. In addition to the government sector, service-related sectors account for a substantial portion of economic activity in the area. Service-related industries, along with the strong government sector, account for more than 75% of the metro area's non-farm employment. The September 11 terrorist attacks caused a slowdown in the Washington, D.C. metro area's economic activity immediately following the attacks, but there were some signs of recovery in the first half of 2002. The leisure and hospitality sector is one of the best performing sectors in the local economy. Employment in this sector increased 2.1% for the 12-month period ending in April 2003.
- **Chicago, Illinois:** Major industries in the Chicago metropolitan area include business and professional services, commercial real estate, finance and insurance services, and manufacturing. As a top tourist destination, the retail and transportation sectors are also major contributors to the economy. Two of the ten largest employers in the Chicago area, United Airlines and American Airlines, are in the air transportation industry. Economic growth in Chicago was slow in 2002 and has not shown any improvement in the first months of 2003. The recent problems facing the airline industry have contributed to the drop in employment in the Chicago area. However, because Chicago has a diversified economy, the region is not very vulnerable to a slowdown in one particular industry or industry cluster. The recent problems in travel and tourism sectors have likely had only mild effects on the city's economy.
- **Boston, Massachusetts:** Boston is a major tourist destination in the United States, and the service sector has been a major source of economic activity for the area. However, the area's tourism industry

did not perform well in 2002, and employment in the service sector contracted by 1.6% in 2002. Other major industries in the Boston metro area include high-technology industries, educational services, financial services, health-care services, construction, and transportation services. In 2002, Boston experienced the worst economic decline in over a decade. The first quarter of 2003 continued to show contraction in employment, but at a lower rate than the last quarter of 2002. The service sector, usually a major contributor to economic activity, also experienced job losses. While the metro area's overall economy is not expected to experience employment growth in 2003, the service sector is expected to experience some job growth. In 2004, employment is expected to grow modestly.

## U.S. Travel and Tourism Outlook

The Secretary-General of the World Tourism Organization believes that, in the long run, the international tourism industry will recover from the recent downturn. He issued a statement earlier this year citing research that has shown that the tourism industry has adjusted to previous times of uncertainty. In the statement, he mentions that international tourism was resilient enough to recuperate quickly, especially in the case of a short and contained war with Iraq. He believes that the crises have led to accelerating changes in consumer habits and the growth of new low-cost airlines.<sup>26</sup> A research study by the World Travel and Tourism Council states that travel and tourism in the United States is expected to achieve real growth of 3.8% per annum between 2004 and 2013. The study also estimates that capital investment in travel and tourism in the United States will fall in 2003, but will increase over the next ten years. The study estimates the world tourism market to grow slightly faster than the U.S. market between 2003 and 2013.<sup>27</sup>

The September 11 attacks will have a long term impact on the airline industry. Airlines have faced financial difficulties in the past, but none have been as serious as the those caused by the terrorist attacks. A number of U.S. airlines are facing serious liquidity problems and may have difficulties surviving another downturn in the economy. One of the possible outcomes is a major change in how the industry operates. Airlines are under pressure to change cost structures and operational strategies. They may make significant changes in order to survive and compete with profitable low-cost carriers. At least one major carrier has launched a "low-cost" airline subsidiary to lower operational costs, while others are seriously considering this strategy. Some industry experts have called for reregulation of the U.S. airline industry because of the current crisis. Although the government has not taken any action in that direction, a few analysts believe that, in the future, federal regulators

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<sup>26</sup> World Tourism Organization, News Release, "War in Iraq may Postpone Tourism Growth but will not Cause Collapse," March 21, 2003.

<sup>27</sup> World Travel & Tourism Council, *United States: Travel & Tourism: A World of Opportunity, Executive Summary*, 2003.

may become more active in overseeing airlines.<sup>28</sup> Such activity, however, would require congressional action. To date, no legislation has been introduced for airline reregulation.

In the hotel industry, analysts believe that the occupancy rates and revenues per available room may improve in 2003, but are not likely to reach the peak levels of 2000 in the short term. In the long term, some analysts predict that demographic trends in the United States will have a favorable impact on the hotel and lodging industry as some baby boomers reach their peak earning years and spend more money on vacations. Also, the number of retirees will increase in coming years and they are expected to travel more.<sup>29</sup> According to a recent poll by Price Waterhouse-Coopers, occupancy rates in U.S. hotels are expected to go up this summer, surpassing the 2002 levels but still below the occupancy rate for the same period in 2001. The anticipated increase is based on an increase in drive travel, the end of hostilities with Iraq, and an improved economic outlook.<sup>30</sup>

## **Legislation and Legislative Issues in the 108<sup>th</sup> Congress**

The FY2003 omnibus appropriations act (P.L. 108-7, H.J.Res. 2) includes a one-time appropriation of \$50 million for an international marketing campaign to encourage individuals to travel to the United States. The appropriations act calls for the creation of the United States Travel and Tourism Promotion Advisory Board, which will be appointed by the U.S. Secretary of Commerce. The act requires the Secretary of Commerce to consult with the private sector to award grants and make direct lump sum payments in support of an international advertising and promotional campaign consisting of radio, television, and print advertising and marketing programs.

The Emergency Wartime Supplemental Appropriations Act, 2003 (P.L. 108-011) includes a provision for \$2.9 billion in assistance to the airline industry. The Act provides grants for airline companies to reimburse them for increasing security costs; extends the War Risk Insurance Program; and provides funding for unemployed airline industry-related workers.

Bills have been introduced in the 108<sup>th</sup> Congress to provide assistance to the airline industry and also to help promote travel and tourism in the United States. One bill (H.R. 2002) would establish a pilot program for the promotion of travel and tourism in the United States through U.S. international broadcasting.

Regulatory issues regarding the travel industry that may be of interest to Congress are related to the pending rules and regulations of the State Department and the new Department of Homeland Security (DHS). Travel industry associations are

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<sup>28</sup> S&P, *Airlines*, p. 9.

<sup>29</sup> S&P Industry Surveys, *Lodging and Gaming*, February 6, 2003.

<sup>30</sup> *Travel Weekly*, "Poll: Summer Looks Better for Hotels," June 2 2003, p. 21

concerned that the Administration's new rules and regulations regarding visas and passports may have an effect on travel. The American Society of Travel Agents recently issued a statement that while travel industry organizations support the new security considerations, they would like to see the creation of an office within DHS to provide review and comment on the potential for serious travel disruptions that may arise from pending DHS rules and regulations.

In January 2004, DHS plans to implement the U.S. Visitor and Immigrant Status Indication Technology system (U.S. VISIT). According to DHS, the plan is designed to make entering the U.S. easier for legitimate tourists, students and business travelers, while making it more difficult to enter the U.S. illegally due to the implementation of biometrically authenticated documents. Travel industry associations have voiced concern that the program may cause delays in the movement of legitimate travelers into the United States.

Another issue that the travel industry has voiced concerns about is related to the State Department's Visa Waiver Program (VWP) which permits international travelers from 27 countries to visit the United States for up to 90 days without the need for a U.S. visa. The VWP originally required that all Visa Waiver travelers possess a machine-readable passport by October 1, 2007. The USA Patriot Act (PL 107-056) accelerated the deadline to October 1, 2003, but granted the State Department the authority to waive this requirement until the original deadline of October 2007, if the country in question is making an effort to distribute the machine-readable passports. The State Department has not waived this requirement for any of the VWP countries. Travel industry associations are concerned that the shorter deadline could disrupt travel to the United States from several countries, including several European countries.