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Toward Leading Indicators for the Tourism Sector

We all know it by now – for the past few years the tourism industry around the world has been facing major challenges. For researchers, this presents us with an opportunity to build a better weather vane for the sector.

In the past few years there have been many short-term shocks which have hit the tourism sector. We have struggled with the crises of 9-11, military action in Iraq, and SARS, and have generated a lot of figures detailing the cost of these crises. Additionally, we are living through some structural changes in the way business is done with the Internet playing a larger role, forcing travel agents to adjust their business practices. It also appears that the tourism business cycle in many countries has been troughing recently, along with the overall business cycle of many of the world's economies.

The tourism business cycle is based on fundamental macroeconomic conditions over approximately a ten-year period. It was first detailed for Canada in professor David Wilton's 1997 report commissioned for the CTC, entitled *Recent Developments in Tourism as Revealed by the National Tourism Indicators*, which discusses developments in the sector-based data taken from the Tourism Satellite Account (TSA).

Wilton's report studied tourism supply and demand over the 10-year period of 1986-96 (we are currently in the process of updating this report). The report's findings reveal that the tourism business cycle follows the overall Canadian business cycle quite closely, except with slightly larger fluctuations. When the four major tourism commodities were measured, it was found that the same fundamental economic conditions that drive the overall economy also drive tourism, such as disposable income, price indices and employment levels. Variation across the tourism sector was large, when demand for individual products and services was measured. It was also found that employment in the tourism sector did not exactly follow the business cycle.

All of this uncertainty, along with the dip in business activity, has led to a renewed interest for the required development of a set of leading indicators for the tourism sector. I have noticed a marked interest in finding a set of factors that would allow us to better predict turning points in the tourism economy, as well as the timing of these turning points. We need to identify trigger points and variables that will anticipate change and allow us to form our marketing strategies appropriately.

At present at the CTC, we have some projects underway with Statistics Canada, including a special survey of business conditions—a key component of which is bookings for the upcoming quarter. This is a good initiative and has started to yield figures that could eventually be used for ongoing publications such as the *Short Term Business Outlook*.

Another approach is to look at the tourism business cycle and link it to other factors that affect tourism demand, such as the consumer confidence index, the business confidence index, exchange rates, and gross domestic product. The relationship between these factors and the tourism business cycle warrants more attention.

This current period of uncertainty is an opportunity for researchers. More research is needed, especially over the next few years, that will allow us to build up knowledge and applications pertaining to tourism. This will help us build a better weather vane for the industry.

Such research tools have been used in the manufacturing sector, but are not used very much in the service sector. To a large extent this is understandable, since the services sector is more variable than the manufacturing sector.

There are thousands of people wanting to know when the tourism industry will turn around and what the future will bring. Investment and hiring decisions are based on this kind of information, and the sooner we can begin getting reliable information to them, the better for our industry.

You can find the *Short Term Business Outlook* along with other forecasting documents on the Canadian Tourism Commission industry website, canadatourism.com