Rosen Research Review

Volume 4
Issue 2 *Winter 2023*

Article 2

December 2023

More Than Income: How Americans Feel about their Finances and How it Affects their Travel Plans

Jorge Ridderstaat
University of Central Florida, Jorge.Ridderstaat@ucf.edu

MORE THAN INCOME

How Americans feel about their finances and how it affects their travel plans

Associate Professor Jorge Ridderstaat of UCF Rosen College of Hospitality Management has examined how Americans feel about their finances and how it affects their travel plans. This study provides new, multifaceted details on how U.S. consumer finances can affect their travel decisions, providing valuable behavioral insights for authorities and policymakers when managing tourist destinations effectively.

Ridderstaat examines how Americans feel about their finances and how it affects their travel plans.

Predicting tourist demand is critical for successful tourist and hospitality planning. Much research has focused on income as the underlying driver of tourism demand. Income data, however, is rarely available, so proxies, such as gross domestic product (GDP), are employed with varying success. Dr. Jorge Ridderstaat, Associate Professor at UCF Rosen College of Hospitality Management, has already established that, while income provides the ability to travel, the desire to spend can be influenced by many additional factors that are less easily identified. In this study, he investigates how American's perceptions of their financial positions affect their decisions to consume tourism. Moreover, he examines whether people's overall financial positions influence their travel plans more than their income. He also tests the idea that potential visitors' economic fortunes will affect different destinations in different ways.

WHAT INFLUENCES PERCEPTIONS OF FINANCIAL POSITION?

Most travel demand studies have focused on the effect of income in isolation. Ridderstaat has taken a more nuanced approach, proposing that net financial wealth is a more accurate indicator than gross wealth when estimating tourism demand. People's household expenditure and changes in liabilities, such as credit card loans and mortgages, affect their behavior as consumers. Similarly, other non-income factors, particularly perceptions of the economy's strength and access to credit, affect how they feel about their financial position. Asset values, particularly house prices, are also significant contributors to feelings of financial wellbeing, as homeowners in rising markets feel a wealth effect that is not visible in income statistics. A falling housing market creates the reverse perception of financial weakness. 401(k)s and stock portfolios have similar influences. With so many factors affecting people's perceptions of their financial position, this study goes beyond examining a straight trade-off between income and tourism spending in its analysis of consumer behavior.

TRACKING FINANCIAL WELLBEING

The strength of the broader economy—from employment numbers and salary levels to housing and stock values—tends to fluctuate in cycles. Business and consumer confidence and spending rise, then fall, and later pick up again. Ridderstaat bases his study on this cycle of growth and contraction, using a standard measure of economic growth—gross domestic product (GDP) produced by the U.S. Bureau of Economic Analysis—to identify fluctuations in general economic activity in the U.S. and observe how rising or falling GDP has affected tourism demand levels.

A WORLD OF CHOICE

Ridderstaat has selected ten popular destinations for U.S. tourists. In addition to eight global regions, he includes Canada and Mexico, as these neighboring countries are the most significant single markets for U.S. tourists. These destinations comprise around 75% of all U.S. foreign tourism. The study uses data from the U.S. Dept of Commerce's National Travel and Tourism Office (NTTO) from 1996 to 2018 to discover patterns in U.S. foreign travel flow. Over this period, Europe was the most popular region (31.6% of trips), and Africa was the least popular (0.7%). Mexico alone attracted 15.5% of tourist visits, and Canada 9.8%. One aim is to find out how these proportions vary with fluctuations in the U.S. GDP.

In addition, the study uses data from the University of Michigan's Survey of Consumers that segments travelers into three equally sized income segments: a top-, middle- and lower-income group. Ridderstaat maps this destination information for each income group over time against the U.S.A.'s economic cycle.

MODELING THE IMPACT OF CHANGING PERCEPTION

To discover how changing perceptions of financial wellbeing influence different income groups' destination choices, Ridderstaat initially identifies the variables and characteristics of both travelers and destinations. This is time series data with trends, seasonal trends, cyclical variations, and irregular variations,

What influences perceptions of financial position?

so he uses the unobserved components model (UCM) to filter these elements from the variables. He then standardizes the cyclic component to ascertain if the variables are stationary (stationary variables have constant means, variances, and covariances). Ridderstaat considers the possibility that the effects of households' net financial position on tourism demand may be nonlinear. He applies the statistical tool, the U-test, to determine whether the relationships between financial position perceptions and tourism demand are linear, i.e., persistent or not (nonlinear).

Ridderstaat also examines the time taken for the influence of background economic conditions to affect tourism spending, i.e., the lag time, to see if it varies. Are travelers more or less impulsive during periods of prosperity or economic downturns, and are some destinations affected more than others? Such answers could inform destination planners contemplating the economic conditions in key markets to predict the timing of demand.

Combining all these components in a regression model enables Ridderstaat to estimate the impact of people's perceptions of their financial position on their demand for travel.

TO GO OR NOT TO GO?

Examining the relationship between stages of America's economic cycle and U.S. consumers' foreign tourist travel activity revealed that expansionary stages of the cycle had the most significant effect on the lower income group's behavior. The less affluent were more likely to go on holiday when they felt wealthier. In contrast, the higher-income group's tourism patterns tended not to be influenced by a more robust economy. In contrast, economic downturns impacted a reduction in tourism across all income groups, although the middle-income group appeared less affected than the other two groups.

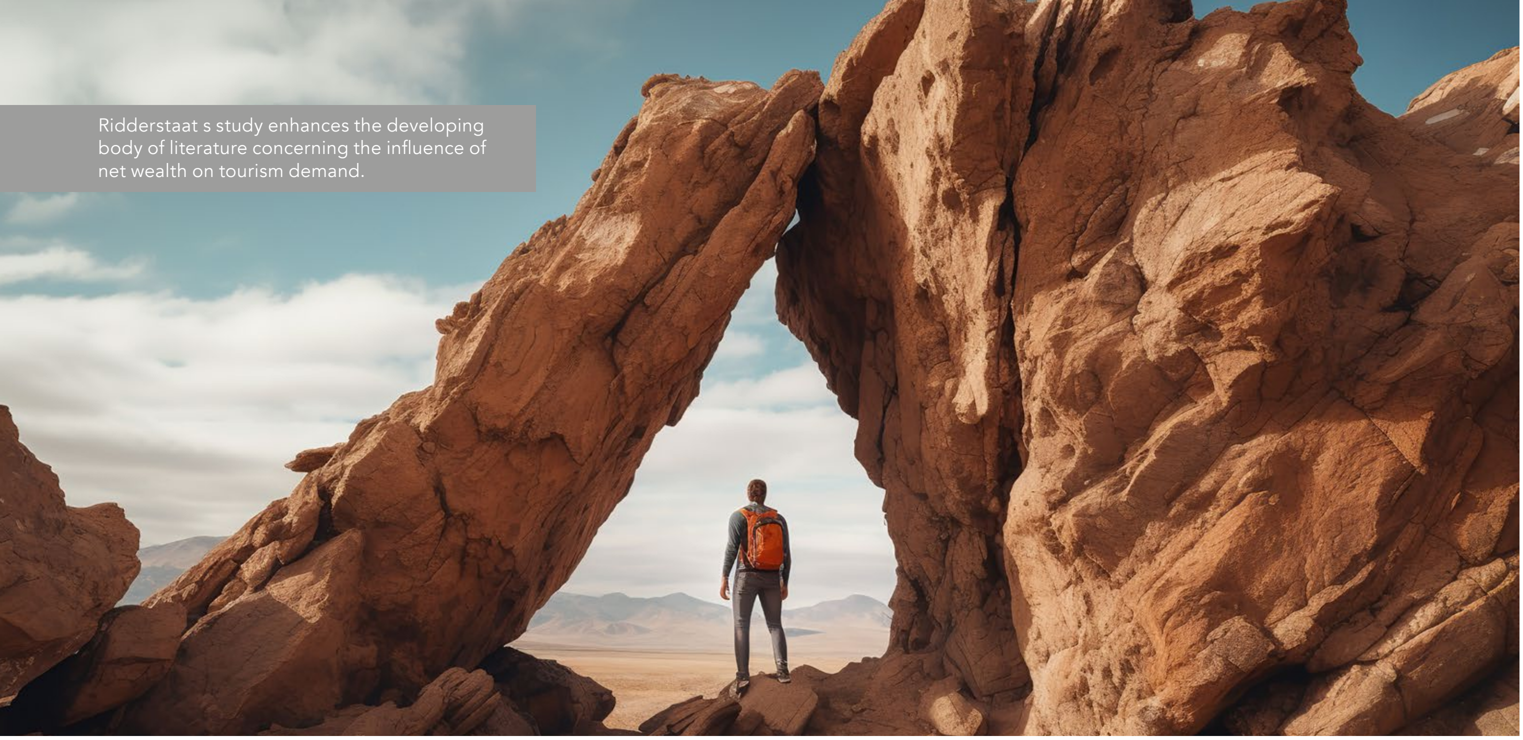
ARE TRAVELERS MORE OR LESS IMPULSIVE DURING PERIODS OF PROSPERITY OR ECONOMIC DOWNTURNS, AND ARE SOME DESTINATIONS AFFECTED MORE THAN OTHERS?

DISTANCE MATTERS

The distance of destinations is a key feature of a trip decision partly due to flight costs. This research shows more long-distance travel took place during economic upturns, as might be expected. Downturns reduced long-haul travel but had little or no effect on short- to medium-haul journeys. This suggests that some of the higher- and middle-income consumers, who still went on holiday during downturns, opted to switch from more expensive long-haul destinations to closer, lower-cost flight options.

DESTINATION REALLY MATTERS

When it comes to understanding exactly where people were going, Ridderstaat finds that during upcycles, the lower-income



Ridderstaat s study enhances the developing body of literature concerning the influence of net wealth on tourism demand.

group traveled to all locations more often. Conversely, this group traveled to everywhere except Canada less frequently during economic downturns.

Middle-income earners travel less to Europe and Central America but more to Mexico during economic upcycles. On the other hand, when times are hard, fewer trips are made to faraway Asia and Oceania, and this group is more likely to travel to Central America and Africa. The high-income group is more likely to switch from South America to Africa during growth periods, whereas, during economic downturns, they tend to favor Canada.

These results show that some members of each income group change their destinations in response to their changing perceptions of their financial situation. While their preferences and destination choices vary according to their income level, there is no straightforward relationship between income level and tourism demand.

UNDERSTANDING DESTINATION PLANNING

This study also examines the possibility of a time lag between the psychological influence exerted by the economy and actual tourism spending. Ridderstaat refers to this as an 'impulse response effect'. The study identifies variations in impulse and long-horizon purchases at different times in the economic cycle—and finds that this affected destinations differently.

Interestingly, the study also reveals that travelers tend to plan ahead six months or more during economic expansions. However, as with income levels, there are differences between destinations: more impulse trips (less than six months to plan) were made to Canada and the Middle East in economic upturns, and less to South America. Longer-term planning in expansions benefited South American, African, and Mexican trips, but Europe and Asia had fewer longer-term planned visitors.

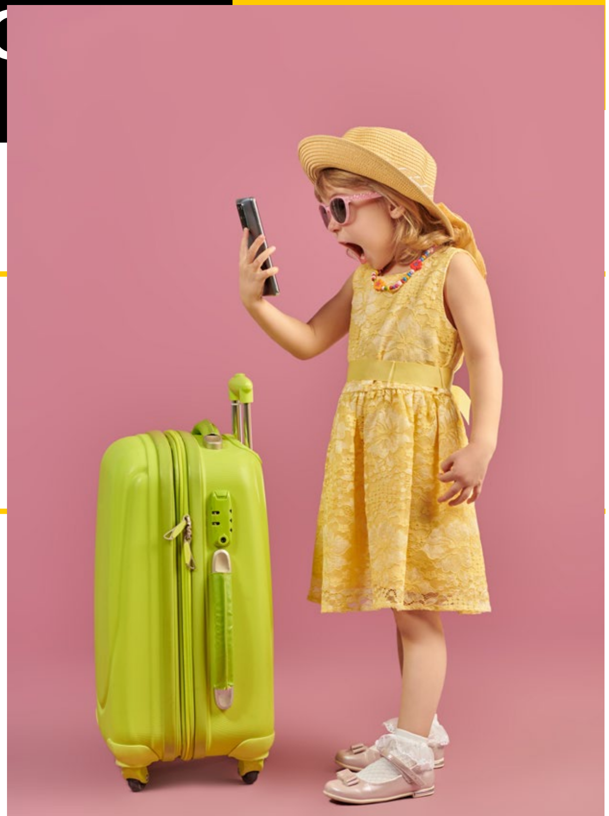
SOME MEMBERS OF EACH INCOME GROUP CHANGE THEIR DESTINATIONS IN RESPONSE TO THEIR CHANGING PERCEPTIONS OF THEIR FINANCIAL SITUATION.

Generally, downturns do not appear to affect the extent to which people travel on impulse or make longer-term plans. Within that stable pattern, there is a slight bias in impulse buys toward Canada, the Caribbean, and Central America, with longer-term planning particularly evident for Mexico. Ridderstaat also finds that any change in perceptions of financial position did not affect tourism demand once a household had decided to go. However, there are exceptions to this rule, with South America seeing increased numbers with more of an upturn in the U.S. economy and Asia witnessing a fall.

PRECISION INSIGHTS

This research clearly shows that several factors influence visitor demand. Background economic conditions affect different income groups in different ways. The precision of the findings provides valuable insights for businesses and regional government planners. For example, South American destinations would benefit by targeting their marketing to lower-income groups during periods of U.S. economic growth. The research also informs planners that there will be around a six-month time lag between any marketing initiative and increased tourism spending. On the other hand, European destinations would benefit by increasing marketing to the U.S. middle-income bracket during an expansionary phase, as the study shows that this group tends to switch away from Europe in better economic periods. Ridderstaat's study enhances the developing body of literature concerning the influence of net wealth on tourism demand. It blends the characteristics of tourism and demand to offer a broader definition of tourism demand that provides a more holistic understanding of what it means in terms of travel and consumption.

RESEARC
IN FO



RESEARCH OBJECTIVES

Associate Professor Jorge Ridderstaat examines how people's financial status impacts their decision to engage in tourism.

REFERENCES

Ridderstaat, J. (2021). Beyond income: US households' financial position perceptions and their willingness to consume tourism. *Current Issues in Tourism*, doi.org/10.1080/13683500.2021.1935794

Dr. Jorge Ridderstaat

Jorge Ridderstaat is an Associate Professor at Rosen College of Hospitality Management, University of Central Florida. His research agenda focuses primarily on the dynamics in tourism and hospitality, where he specializes in data decomposition and analysis using econometric techniques. Dr. Ridderstaat received his doctorate from the Free University of Amsterdam, The Netherlands, where his dissertation focused on the determinants of tourism demand dynamics in a small island destination. He is the author of two books and many academic publications (refereed journal articles, book chapters, encyclopedia entries, and conference papers).

E: Jorge.Ridderstaat@ucf.edu **T:** +1 407.903.8057
W: hospitality.ucf.edu/person/jorge-ridderstaat

PERSONAL RESPONSE

Your study offers valuable behavioral insights for destination planners in tourist destinations around the world. How might your findings be used to create impact for the industry?

"The findings from this study can be used to create an impact on the industry in several ways. First, by understanding how different segments of consumers perceive their financial position and how this affects their tourism demand, businesses can tailor their marketing and advertising messages accordingly. Second, businesses can also use the findings from this study to develop new products and services that meet the needs of different segments of consumers. Third, businesses can also use the findings from this study to advocate for policies that support tourism demand."

Do you think it would be worthwhile—and practical—to factor fluctuating USD exchange rates into your model, as this could have a significant impact on destination attractiveness, particularly for lower-income tourists; or are currency rate changes too volatile to be useful?

"Yes, I think it would be worthwhile to be able to factor fluctuating USD exchange rates into the model, as this could have a significant impact on destination attractiveness, particularly for lower-income tourists. However, it is important to note that currency rate changes can be very volatile, making it challenging to develop an accurate model."