Is Tourism Really Slipping? NOT!

In a recent issue of Pacific Business News (PBN), Honolulu’s weekly business newspaper, the lead article began, “Tourism, front and center of the Hawaii economy for more than 40 years, is slipping into the background as a catalyst for growth, gradually being displaced by government, retail and most recently, real estate.” The article presented some statistics from the U.S. Bureau of Economic Analysis (BEA) to support this thesis. (See chart on page 6.)

The first thing I thought of after reading the article were the words attributed to former British Prime Minister Benjamin Disraeli (1804 – 1881) and popularized in the U.S. by Mark Twain: “There are three kinds of lies: lies, damned lies, and statistics.”

Not much has changed since Disraeli served Queen Victoria, and statistics, even accurate ones, can still be used to support mistaken arguments. That is what I believe happened in the PBN article – not that the writer’s thesis was a lie, but he was misled by statistics. Because the bottom line is that TOURISM REMAINS THE ENGINE THAT DRIVES HAWAII'S ECONOMY.

The basic cause of the confusion in the PBN article is the fact that there is no Standard Industrial Classification (SIC) for Travel & Tourism. SICs are the classifications used by the federal government to measure and report on the nation’s economic activity by its component sectors. The system has lots of classifications and sub-classifications. The main groups include Agriculture, Forestry and Fishing, Mining, Construction, Manufacturing, Transportation, Wholesale and Retail Trade, Finance, Insurance and Real Estate, Services, etc. However, there is no category for Travel & Tourism.

Instead, Travel & Tourism is divided up among numerous other SIC classifications. Hotels and other kinds of lodging are included under Services. Most of the other components of Travel & Tourism are found in other classifications, even in the updated version of the system, the North American Industry Classification System (NAICS). Tourism dollars spent on interisland flights are attributed to the Transportation category. A tourist buying an aloha shirt generates income assigned to Retail Sales, etc.

That is why international economists have developed a system called Tourism Satellite Accounting, which identifies the contribution of Travel & Tourism to each component of the SIC/NAICS, ranging from Transportation and Utility Services to Construction and Retail Trade. Travel & Tourism gets credit for all the income generated by travelers, allowing its true impact to be understood and evaluated.

Look at the three activities that the PBN article states have surpassed Travel & Tourism as Hawaii’s leading industries as ranked by their contribution to the state’s Gross Domestic Product (GDP). They are (1) Financial Activities (including real estate), (2) Government, and (3) Retail, Wholesale Trade. However, a large portion of the GDP contribution in each of those areas is actually provided or driven by Travel & Tourism.

The sales of the condominium units in the Trump International Hotel & Tower within Outrigger’s Waikiki Beach Walk project are a case in point. The sales are most likely classified in the NAICS Real Estate and Finance categories. However, a good portion of the record $700 million sales, much of it in Japan, was based on the concept that the units can be occupied by tourists when the owners are not using them.

Consider Retail Trade. How much of the sales at Ala Moana Center, Hawaii’s premier shopping mall, involves visitors? Anyone who has shopped there knows the tourism component is very large, yet all sales are classified as Retail Trade and nothing is credited to Travel & Tourism.

And then there’s the Government category. A good portion of the growth in government has taken place thanks to the growth in Travel & Tourism over the past decades. Certainly the increasing tax revenues generated by Hawaii’s visitor industry have played a major role in paying for the growth of government.

The Tourism Satellite Accounting system adjusts for this and shows the true impact of Travel & Tourism in an economy.

In the 1990s, at the initiative of Outrigger Hotels & Resorts, a team of international economists working for the World Travel and Tourism Council (of which I was and remain a board member) studied Hawaii’s economy using Satellite Accounting methods, which had already been applied to other economies. Their studies showed the tremendous contribution of Travel & Tourism to the state. The most recent of these studies – WTTC Hawaii Tourism Report 1999 – can still be found online at www.enterprisehonolulu.com/html/pdf/WTTCHawaiiTourismReport99.pdf.
That study concluded that Travel & Tourism was directly responsible for 26 percent of Hawaii’s gross state product (GSP), one-third of its jobs, 54 percent of its exports and 27 percent of its total tax receipts.

Of course it is possible for Travel & Tourism’s numbers to have slipped a bit since 1999, especially in view of the effect of skyrocketing real estate values, but to have dropped from 27 percent in 1999 to the BEA’s current estimate of 10 percent, cited in the PBN article, is not credible. The explanation is that this is an “apples to oranges” comparison, in which the BEA’s accounting methods fail to capture the true value of Hawaii’s visitor industry.

This conclusion is supported by the fact that the PBN article also cited two different estimates of Travel & Tourism’s relative weight in the economy, both substantially higher than the BEA figure. The article noted that “Bank of Hawaii economist Paul Brewbaker puts tourism’s actual share of the Hawaii economy at about 17 percent, while Carl Bonham of the University of Hawaii Economic Research Organization calculates it at 20 percent.” Those figures are much closer to those of the WTTC’s Tourism Satellite Accounting, and reflect a more accurate methodology than the BEA’s.

Judging from the erroneous conclusions some people reached after reading the BEA statistics, I believe it is time to dust off those Tourism Satellite Accounting studies by the WTTC and get them updated. If we do, I am sure we will see that Travel & Tourism is still Hawaii’s No. 1 industry almost any way you look at it, particularly in the area of creating great job opportunities for people of all levels of ability, training and education.

No, the sky is not falling and Travel & Tourism continues to be a great industry in which to work and grow. That is why I continue to say, “In Hawaii, Tourism Is Everybody’s Business.”

**Hawaii gross domestic product (GOP)**
Industries ranked by size, 2006

- **Financial activities:** $13.10 billion (includes real estate)
- **Government:** $12.84 billion
- **Retail, wholesale trade:** $6.28 billion
- **Leisure and hospitality:** $5.54 billion
- **Professional and business services:** $5.31 billion
- **Education and health services:** $4.51 billion
- **Construction:** $3.47 billion
- **Transportation and utilities:** $2.99 billion
- **Information:** $1.46 billion
- **Other services:** $1.42 billion
- **Nondurable-goods manufacturing:** $668 million
- **Natural resources and mining:** $387 million
- **Durable-goods manufacturing:** $330 million

U.S. Bureau of Economic Analysis