

Chapter 43

Financial Crisis and Tourism Activity: Evidence from the UK

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ABSTRACT

The current recession has hit hard the European countries, and also affected tourism activity throughout the continent. Considering that several European countries (especially the Mediterranean ones) are heavily dependent upon tourism activity, the recent financial crisis has considerably affected their economy. This effect is strengthened with the parallel adoption of austerity measures aiming at economic recovery and exit from the recession. Despite the substantial magnitude and severity of this crisis, little is known about tourists' reactions in coping in with the recessionary effects. Contrary to the established practice of adopting a macroeconomic perspective in the examination of the impact of financial crises on tourism activity, this book chapter follows recent recommendations in the literature such as Brooner and de Hoog (2012) Kaytaz and Gul (2014) to examine the particular adverse effects of the current financial/economic crisis on individual behaviour and demand patterns. Thus, the research utilises a survey questionnaire to British tourists examining the effect of the current recession on travel and consumption patterns. Socio-demographically, the results reveal that the current recession appears to have a significant effect on gender, since male tourism expenditure is affected more than female one. Moreover, the uncertainty associated with income and employment levels during recession has a particularly strong effect on tourism expenditure. More specifically, uncertainty associated with both income and employment levels during the financial crisis has a negative and statistically significant effect on tourism expenditure. On the other hand, younger and middle aged tourists seem to be fairly unaffected by the financial crisis, as compared to more mature and senior tourists. In addition, the findings indicate that future expectations regarding income levels have no influence on current tourism expenditure patterns. Overall, those respondents that were unsure about the effect of the financial crisis on their current tourism expenditure patterns were also more likely to exhibit ambivalence about the future. The findings provide an interesting insight to tourism decision makers since they illustrate evidence regarding the turning points of demand, especially during periods of economic downturn.

DOI: 10.4018/978-1-7998-2469-5.ch043

INTRODUCTION

The recent financial crisis that plagued the majority of European countries recently has had a particularly negative effect on tourism activity across national economies. The direct effects of the recent financial crisis on tourism activity are evident in terms of tourism consumption (tourism demand) and expenditure patterns (Smeral, 2009). According to Sheldon and Dwyer (2010), tourism expenditure has experienced greater falls than any other form of discretionary consumer expenditure during the peak of the financial crisis. Indicative of the extent of the problem is the fact that in 2009 the international credit crunch and the financial crisis resulted into a slow down of international demand for foreign travel in the EU by 5% in real terms, whilst more than 10 million jobs are accounted to accommodation and food services sector, which is 4% of total EU employment (European Parliament, 2014).

It is common ground that tourism is not immune from crises (Bramwell & Lane, 2003; Wang & Ritchie, 2012). As IMF (2009) indicated international tourism has been considerably declined since 2008, whilst the tourist consumer patterns have been deeply affected with negative psychology in terms of the duration, depth and implications of the recession. As a consequence, the current recession has severely affected tourism and hospitality industry, producing sharp consumption declines throughout the economic sector (Novelli et al., 2012) that have substantially reduced tourism revenues (Sariisik et al., 2011). At this stage, several tourism and hospitality companies fear that during this recession they may solely focus on the reduction of prices no matter the costs, a route which is likely to prove very dangerous to follow (Papatheodorou et al., 2010).

Despite the magnitude and severity of the financial crises on tourism activity, very little is being done in terms of understanding how the tourism sector is coping during times of economic recession (Henderson, 1999; Okumus and Karamustafa, 2005). Following the recommendations by Song et al. (2010), this investigation could provide interesting insights to public sector managers and policy makers since it provides evidence regarding the turning points of demand, especially during periods of economic downturn.

The particular aim of this book chapter is to provide empirical evidence on the impact of the recent financial crisis on the British travellers. Our research objectives are set twofold.

- First, to provide a better understanding of tourist behaviour and demand patterns during periods of economic recession.
- Second, to offer evidence based insight to public policy makers and managers regarding the particular actions and initiatives they could initiate to fend off the negative effects of the crisis.

Contrary to the established practice of adopting a macroeconomic perspective in the examination of the impact of financial crisis on tourism activity, this book chapter follows recent recommendations in the literature (Song *et al.*, 2010, Sheldon and Dwyer, 2010) to examine the particular adverse effects of the current financial/economic crisis on individual behaviour and demand patterns. For that purpose, we utilise evidence from a unique dataset put together through the distribution of a survey questionnaire on British tourists.

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