THE REGIONAL ECONOMY

OF UPSTATE NEW YORK

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Our upcoming Summer newsletter will discuss the economic benefits of Historic Rehabilitation and provide excerpts from a conference being held on June 15 at the Buffalo Branch.

Tourism's Role in the Upstate New York Economy

As the tourism industry has expanded nationwide, it has also grown into a regional economic asset. Tourists buy local products, patronize neighborhood establishments, create tax revenues, and support area amenities. Accordingly, tourism is frequently cited as a vital component of regional economic development strategies.

While the upstate New York economy is most often associated with manufacturing, tourism is becoming an engine of growth in parts of the region. In this issue of *The Regional Economy of Upstate New York*, we analyze the tourism industry and its role in the upstate economy.

We begin with a broad discussion of how tourism has emerged as a force in the U.S. and regional economies. We follow with an examination of the industry's size and growth in upstate New York. Tourism is shown to be a comparatively small component of the upstate economy, employing only about 3 percent of private-sector workers in New York State. Nevertheless, two metro areas—Glens Falls and Jamestown—boast relatively large tourism industries, and Glens Falls is one of the most tourist-intensive metro areas in the country. We also show that the state's rural economy is generally more dependent on tourism than are its metro areas. Finally, despite its size, upstate New York's tourism industry is growing faster than the overall economies of Dutchess County, Glens Falls, Jamestown, and Binghamton—thus making the industry an increasingly important contributor to growth.

The Rise of the U.S. Tourism Industry

Tourism is ordinarily defined as activities in which visitors travel to places outside their residential environment. Although most often linked with leisure, tourism also includes business activity. Trade shows, business conventions, and other business travel are all examples of tourism.

Tourist activity has expanded dramatically in the United States in recent decades. An increase in leisure time, added to rising wages, has resulted in a growing demand for recreational activities. The average workweek is now five hours shorter than it was in the 1960s, and the average household income is more than 50 percent higher.[1] This trend has been complemented by greater access to travel for the average consumer. The rate of automobile ownership has doubled since 1950, while highway construction has increased, enabling most of the population to travel farther from home.[2] Air travel has also become much more affordable for the average consumer—the cost has been cut in half since the 1960s, and air travel is one-quarter its price in the 1950s.[3] These forces have combined to make tourism less costly and more accessible. As a result, per-capita spending on recreation has nearly quadrupled since 1960.[4]

Business tourism has also been on the upswing, particularly as the country has moved toward a service- and information-based economy. The exchange of information, and hence person-to-person contact, has become increasingly important. This development has led to more conferences, conventions, and trade shows as well as more travel between company offices. In addition, business travel is often linked with leisure activity, as business travelers engage in such pastimes as local sightseeing, dining, and visiting attractions.

The higher demand for tourist-related activities in recent decades has spurred the industry's rapid expansion. As the industry has grown, its potential economic contribution has become more evident, and regional planning strategies have increasingly emphasized the development of local tourism industries.

Tourism's Effects on a Regional Economy

Tourism's economic benefits have earned it a reputation as a potential engine of regional growth. Traditional industries, like manufacturing, generate growth through the regional export and sale of goods and services, bringing income into the area. Tourism also brings income into a region, but it draws consumers directly to the service provided at a fixed location. In addition to spurring economic growth, tourism benefits local residents, who enjoy the same cultural amenities as visitors do—such as nightlife, parks, and museums—with the added advantage of having these amenities subsidized by nonresidents. In addition, the availability of amenities is becoming more important in attracting workers and businesses to a region. Indeed, research suggests that high-amenity cities experience more rapid population growth than do low-amenity cities.[5] In addition, a local tourism industry diversifies a region's economic base. Areas like upstate New York, where manufacturing jobs are being lost, may find that a tourism industry adds long-term stability to the industrial economic base.

However, a regional tourism industry has drawbacks. While tourism creates jobs, they are often low-paying and seasonal. The average annual

Table 1
Top Twenty Tourism-Dependent Metro Areas, 2001

Area	Accommodation Location Quotient
Atlantic City, NJ	19.8
Las Vegas, NV	15.6
Reno, NV	9.9
Flagstaff, AZ	6.3
Biloxi, MS	5.0
Myrtle Beach, SC	4.8
Lake Charles, LA	4.1
Salinas, CA	4.0
Orlando, FL	3.5
Honolulu, HI	3.1
Naples, FL	2.9
Pittsfield, MA	2.9
Panama City, FL	2.8
Santa Barbara, CA	2.4
San Luis Obispo, CA	2.4
Santa Fe, NM	2.3
Shreveport, LA	2.2
New Orleans, LA	2.1
Savannah, GA	2.1
Glens Falls, NY	**2.0**

Source: U.S. Bureau of the Census, *County Business Patterns* (2001).

Notes: The location quotient, a common measure of employment concentration, is defined as the local share of private-sector employment in accommodation divided by the national share. A quotient of 1.0 indicates a concentration of employment equal to the U.S. average.

Table 2
Tourism Industry Employment Shares, 2001

Area	Share
United States	**4.1**
New York State	**2.9**
Glens Falls	8.3
Jamestown	5.8
Dutchess	3.4
New York City	3.3
Albany	2.7
Syracuse	2.3
Buffalo-Niagara Falls	2.3
Niagara County	6.2
Binghamton	2.2
Rochester	1.9
Elmira	1.8
Utica	1.7
Rural New York	6.2
Upstate metro aggregate	2.5

Source: U.S. Bureau of the Census, *County Business Patterns* (2001).

Notes: Shares are expressed as a percentage of private-sector employment. The estimation methodology is outlined in the box. Rural New York is the sum of all New York counties not part of metropolitan areas. Niagara County is included in the Buffalo-Niagara Falls metropolitan area.

wage in the industry is slightly more than $18,000, well below the national average (although tourism does create job opportunities for low-skilled and part-time workers).[6] In addition, the often seasonal nature of tourism can result in volatile employment year-round for workers in this industry. A sizable tourist population can also prevent residents from fully enjoying local amenities, inflate prices of local goods and services, and worsen traffic congestion. Furthermore, tourism must be supported by local public services—such as police protection and highway maintenance—and research suggests that economies with larger shares of tourism also have higher levels of local government expenditures.[7]

Tourism in Upstate New York

Tourism is clearly playing a more prominent role nationally and regionally, but how is this industry contributing to the upstate New York economy? To answer this question, we examine upstate's tourism industry using data from the U.S. Census Bureau's *County Business Patterns*, which is available annually from 1964 through 2001. To proxy for regional tourism industry activity, we use data on tourism-related employment. There is no predefined tourism industry classification available in the data, so we design a methodology to estimate tourism employment (see box).

We begin by identifying the U.S. metro areas with the twenty highest concentrations of accommodation employment (Table 1)—a category that includes hotels and other forms of lodging, which are a common indicator of a regional economy's dependence on tourism. As one might expect, two metro areas centered around casino gambling—Atlantic City and Las Vegas—have the highest concentrations. In general, the metro areas most highly dependent on tourism are in the South and the West, in states such as Florida, Louisiana, Arizona, and California.

Only two metro areas in the Northeast make the top twenty: Pittsfield, Massachusetts, and Glens Falls, New York. Pittsfield is home to the Berkshires; Glens Falls is located in eastern New York State, nestled between the Hudson River and the Adirondack Mountain range, and includes the popular tourist destination Lake George as well as offers proximity to Saratoga Springs.

We also compare tourism employment shares for upstate New York's metro areas with the national share (Table 2). The U.S. tourism industry employs roughly 4 percent of private-sector workers, making it a relatively small industry compared with manufacturing (14 percent) or health care (13 percent). By comparison, two upstate metro areas—Glens Falls and Jamestown—have relatively high tourism employment shares. In Glens Falls, 8.3 percent of the workforce is employed in tourism, more than double the U.S. share. Jamestown's comparatively high share of 5.8 percent is largely attributable to the Chautauqua Institution, a not-for-profit, 750-acre educational center on Chautauqua Lake in southwestern New York State.

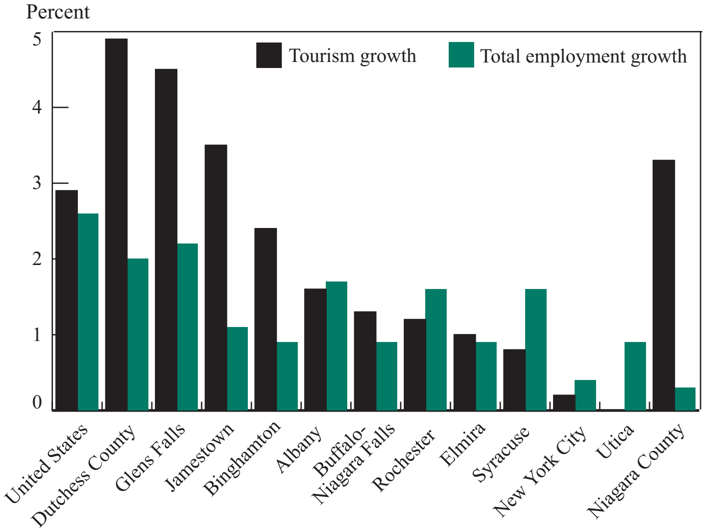
All other metro areas in upstate New York, and New York City, have tourism employment shares smaller than the national average.[8] The Buffalo-Niagara metro area, which includes Niagara Falls, has a share of 2.3 percent, well below that of the nation. Yet when separated from the Buffalo metro area, Niagara County has a share of 6.2 percent. Given Niagara Falls' status as one of the world's most highly recognizable tourist sites, one might expect this share to be much higher. However, Niagara County is highly industrialized, owing to the historical availability of inexpensive electricity from Niagara Falls and its strategic location as a water transportation node. In addition, the Canadian side of Niagara Falls, which competes with the American side, benefits from Canada's more highly developed tourism industry.[9]

Tourism is also an important component of the rural economies of upstate New York. The share of tourism employment in these counties is 6.2 percent, well above the metro area aggregate of 2.8 percent. Indeed, some rural counties, particularly those in the Catskill Mountains and around the Capitol Region, have shares ranging from 10 to nearly 25 percent. These areas are close to New York City, a prime source of regional tourists.

Our analysis also compares the growth rates of tourism employment in upstate New York's metro areas with growth rates for the nation and New York City (see chart). For the most part, tourism industry employment in upstate New York is growing more slowly than in the nation as a whole. In fact, it is expanding at less than half the nation's pace in Buffalo, Rochester, Elmira, and Syracuse, and there is no growth in Utica. However, tourism employment is growing more rapidly in Dutchess County, Glens Falls, and Jamestown than it is in the nation. Although tourism's employment share is below average in Dutchess County, employment in this industry is growing swiftly and outpacing all metro areas examined.

Finally, while the tourism industry represents a relatively small share of economic activity in New York State, it is growing more rapidly than other economic activity in many regions. For the United States as a whole, employment in this industry has been expanding slightly faster than total employment. In Elmira, Dutchess County, Binghamton, Jamestown, and Glens

Employment Growth in the Tourism Industry and Total Employment Growth, 1964-2001



Source: U.S. Bureau of the Census, *County Business Patterns* (1964-2001).

Notes: Employment growth is the average of the annual growth rates in each year between 1964 and 2001. Tourism industry growth is estimated using the methodology outlined in the box.

Identifying and Measuring the Tourism Industry

An industry is typically defined as a group of entities that use a similar process to create a similar product or service. Tourism, however, does not readily fit into an industry classification. Its diverse products and services--which include items such as air travel, restaurants, hotels, and gift shops--are often unrelated in the production process.

The Bureau of Economic Analysis (BEA), which constructs the national income and product accounts, has recently created a methodology for estimating tourism industry activity.[1] The BEA identifies goods and services typically purchased by tourists and the respective industries that produce them. However, these goods and services are not purchased solely by tourists--some are bought by local residents. Therefore, the BEA allots a proportion of the industry's activity to tourism based on the share of products sold to tourists compared with those sold to nontourists. For example, the hotel industry has a tourism ratio of 80 percent because most hotel business is generated by tourists, while the restaurant industry ratio is roughly 20 percent because most restaurant patrons are nontourists.

Our study uses these ratios to estimate tourism industry employment for the United States as a whole. However, the application of these ratios to local areas can be problematic. For instance, while 20 percent of restaurant services on average may be purchased by tourists, a high-tourism area, perhaps famous for its restaurants, would likely have a ratio much higher than 20 percent. Conversely, an area with little tourist activity would tend to have a much smaller ratio. Thus, tourism employment estimated using this method will understate high-tourism areas and overstate low-tourism areas.

To address this problem, we use accommodation employment to proxy tourism employment. We calculate the ratio between the local share of accommodation employment and the national share and apply this ratio to the national tourism employment share. For example, if a region's share of accommodation employment is twice the national share, we assume that the local tourism industry employment share is also twice as large. This methodology assumes that the share of tourism employment attributable to accommodation is the same across regions. Although this assumption is fairly accurate most of the time, it poses a problem for resort areas like Las Vegas, where hotels are large and multifaceted. Accommodation employment in such areas includes restaurants and entertainment, but data classification methods count them as hotel employment. Such classifications overstate the hotel employment share and hence tourism employment estimated by our method. In addition, tourism tends to be understated in regions where tourist activity does not rely heavily on accommodation, such as locations that specialize in day trips. For New York State, however, these problems and estimation errors are likely to be relatively minor.

We use a similar proxy to estimate the growth of tourism industry employment. We assume that employment growth in the accommodation industry is roughly equal to employment growth in the tourism industry.

Note:

[1] David L. Kass and Sumiye Okubo, "U.S. Travel and Tourism Satellite Accounts for 1996 and 1997," U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business (July 2000).

Falls, tourism industry employment has grown at twice the rate of total employment, while it has increased slightly faster than total employment in Buffalo. When Niagara County is separated from the Buffalo metro area, the county's tourism employment growth has outpaced the nation's and is significantly more brisk than its overall employment growth. In Albany, Rochester, and Elmira, tourism employment growth is roughly the same as total employment growth.

Conclusion

Tourism is a small yet important component of regional economic activity. A local tourism industry diversifies the economic base, creates amenities, and is frequently an important contributor to growth, although wages tend to be low and employment seasonal.

In upstate New York, the tourism industry is especially important for areas such as Glens Falls, Jamestown, Dutchess County, and, of course, Niagara County. However, tourism is not a particularly large factor elsewhere, nor is it growing particularly rapidly— but it is still a contributor to the local economies. For much of upstate New York, the tourism industry is growing faster than the general economy.

Finally, it is worth noting that many regional economic development strategies are emphasizing the creation and enlargement of local tourism industries. While their prospects can be encouraging, policymakers may wish to consider these strategies with care. Regions throughout the country are expanding their tourism industries, often by utilizing identical strategies and creating similar attractions. Although the tourism industry has room for growth, the wider availability of attractions nationwide will be accompanied by greater competition for tourist dollars.

Notes:

[1] Workweek data are from the U.S. Department of Labor, 1964-2003; income data are from the U.S. Census Bureau and are adjusted for inflation.

[2] Federal Highway Administration; ownership figure is based on the number of vehicle registrations.

[3] Air Transport Association; figures reflect inflation-adjusted price per mile traveled.

[4] Bureau of Economic Analysis and U.S. Census Bureau; inflation-adjusted spending per capita.

[5] Edward Glaeser, Jed Kolko, and Albert Saiz, "Consumer City," *Journal of Economic Geography* 1, no. 1 (2001).

[6] The average wage is calculated based on a weighted average of tourism-related industries using the methodology described in the box.

[7] John D. Wong, "The Impact of Tourism on Local Government Expenditures," *Growth and Change* 27, summer (1996).

[8] For a discussion of New York City's tourism industry, see Jason Bram, "Tourism and New York City's Economy," Federal Reserve Bank of New York *Current Issues in Economics and Finance* 1, no. 7 (1995).

[9] In addition, visitors to Niagara Falls are often day-trip tourists, and our estimation method understates tourism employment in such circumstances (see box).

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