

Investigating other leading indicators influencing Australian domestic tourism demand

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Abstract

In the tourism demand literature, much of the research focuses on income and price variables as demand determinants for travel. Nevertheless, the literature has neglected other possible indicators such as consumers' perceptions of the future course of the economy, household debt and the number of hours worked in paid jobs. In fact, several studies found that these indicators could influence consumers in making decisions to travel. In this paper, we examine whether there are other indicators that can influence future Australian domestic tourism demand. The econometric model used in this study is a panel three-stage least squares (3SLS) model. Using the data on Australian domestic tourism demand, the empirical results reveal several points: first, it is found that the consumer sentiment index has significant impacts on VFR, but not on holiday tourism. Furthermore, the business confidence index has no influence on business tourism demand. The study also finds that an increase in household debt could encourage more Australians to travel domestically, indicating that Australians may consider increasing debt as their confidence to spend increases. Lastly, working hours have a statistically significant effect in the case of holiday tourism data. Crown Copyright © 2010 Published by Elsevier B.V. on behalf of IMACS. All rights reserved.

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1. Introduction

Leading economic indicators have been widely employed in the economic literature for the purpose of forecasting business activities. The usefulness of leading indicators is that they enable researchers to determine and predict turning points in the cyclical movements of an activity of interest [18]. In the tourism demand literature, it is well acknowledged that income and tourism prices are the leading demand determinants in tourism demand analyses. According to the literature reviewed by Lim [26], out of 124 published papers, income variables were employed in 105 empirical papers. The author also found that 94% of the papers used relative prices whereas 52% used transportation costs.

In addition, other leading indicators have been considered in the literature. For instance, Cho [6] and Turner et al. [34] employed macroeconomic variables, such as the money supply, gross domestic products, the unemployment rate, imports and exports, to examine tourist arrivals to Hong Kong and Australia, respectively. Rossello-Nadal [32] examined monthly tourist growth in the Balearic Islands using the number of constructions, industrial production, foreign trade and exchange rates.

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