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Sentiment, mood and outbound tourism demand

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ABSTRACT

We investigate spillover effects from sentiment and mood shocks on US outbound tourism demand from 1996 until 2013. We use the Index of Consumer Sentiment and Economic Policy Uncertainty Index as proxies for sentiment and the S&P500 as a proxy for mood. We find a moderate to high interrelationship among sentiment, mood and outbound tourism demand. More importantly, sentiment and mood indicators are net transmitters of spillover shocks to outbound tourism demand. The magnitude of spillover effects sourced by sentiment and mood is time-varying and depends on certain socio-economic and environmental events. Our results have important implications for policymakers and travel agents in their efforts to predict tourism arrivals from key origin countries and to plan their tourism strategy.

Introduction

The economic implications of tourism in both origin and destination countries are highly important to society. For destination countries, this extends to government revenues, employment, infrastructure, broader socio-economic growth and diversification of economic activities (Li, Blake, & Cooper, 2011). The importance of tourism is documented in the United Nations World Tourism Organisation (2014) report, which shows that tourism contributes about 9% of the global GDP and

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$1.4 trillion of international exports. Tourism studies have adopted a multi-disciplinary approach integrating many social disciplines, including economics, in order to gain a better understanding of tourism related issues, such as tourism demand. This is reflected in the bulk of the research published on tourism demand determinants (Song, Dwyer, Li, & Cao, 2012).

Given the high importance of the tourism industry and its contribution to national economies and societies worldwide, the identification of factors that determine tourism demand behavior is critical for informing tourism management and policymaking. Indeed, there is a plethora of studies that focus their interest on the drivers of outbound tourism, which most commonly use macroeconomic variables, such as unemployment rate, gross domestic product and money supply (see, indicatively, Lim, 1997; Oh, 2005; Halicioglu, 2010; Eugenio-Martin & Campos-Soria, 2014; Seetaram, Forsyth, & Dwyer, 2016; Smeral, 2012).

By contrast, there is little empirical work on how variables that move beyond the macroeconomic sphere, such as people's mood and sentiment, might impact on their propensity to consume tourism products (Yap & Allen, 2011). The role of mood and sentiment in individuals' spending behavior has been widely examined in the economics and psychology literature (Nofsinger, 2005; Weber & Johnson, 2009) and is acknowledged as an important determinant of many economic aspects, ranging from consumer expenditure (Carroll, Fuhrer, & Wilcox, 1994; Ludvigson, 2004) to stock market returns (Baker & Wurgler, 2006).

Tourism studies offer some evidence that consumer sentiment and mood relate to national tourism demand (Yap & Allen, 2011) and the way tourists evaluate hospitality services (Sirakaya, Petrick, & Choi, 2004). Motivated by this line of research, this paper investigates the spillover effects of shocks to mood and sentiment on US outbound tourism to all destinations. The US is one of the largest suppliers of tourists worldwide (United Nations World Tourism Organisation, 2014) and thus a key market for many destination countries.

To approach this market through the emotional dimension, we use the Index of Consumer Sentiment (ICS) and the Economic Policy Uncertainty (EPU) index, as two proxies for sentiment and the S&P500 index, as a proxy for mood. The ICS can capture sentiment in relation to consumers' expectations about their own financial condition and the future of the economy, whereas the EPU index can grasp sentiment in relation to the macroeconomic environment of the country. Moreover, as expressed by Nofsinger (2005) and Olson (2006), stock market indices, such as the S&P500, have the ability to reflect social mood.

This paper is timely in view of the recent Global Financial Crisis (GFC) of 2007–09, which had a major impact on consumer sentiment and economic policy uncertainty in the US. Furthermore, the GFC saw the collapse in stock prices associated with an unprecedented increase in investor fear as measured by the CBOE VIX index. The VIX being an implied volatility index, based on S&P500 options, expresses expected future market volatility over the next 30 calendar days. This climate could have possibly created spillover effects on consumers' mood and their spending behavior, especially toward luxury goods, such as tourism. The tourism literature has already started to investigate market interdependences in outbound tourism from one origin country to multiple source markets, an area of research that is developing in response to the recent crisis (Song et al., 2012).

The contribution of this paper can be described succinctly. Unlike previous studies (e.g. Yap & Allen, 2011), we investigate the spillover effects of shocks to consumer sentiment, mood and outbound tourism demand using three different proxies. With the exception of the ICS, the other two proxies are used in the tourism literature for the first time. Additionally, the manner of the ICS inclusion represents a significant departure from the literature. Instead of employing the ICS as a determinant of either tourism demand at a national level (Crotts, Thunberg, & Shifflet, 1993; Yap & Allen, 2011) or international tourism arrivals in destination countries (Gounopoulos, Petmezas, & Santamaria, 2012), we use it as a sentiment proxy to investigate its spillover effects on the aggregate US outbound tourism demand.

Finally, this study contributes to the existing literature of tourism demand determinants by outlining the importance of shocks to sentiment and mood on the forecast-error variance in outbound tourism demand. So far, tourism studies have examined travelers' sentiment and mood, mainly through the use of qualitative surveys but have overlooked these determinants at macro level. Thus, using