



Demographic change, tourism expenditure and life cycle behaviour



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HIGHLIGHTS

- Life cycle theory is used to investigate the effect of demographic dynamics on tourism demand.
- Tourism consumption is analysed by means of hurdle models and cohort techniques.
- Older cohorts are inclined to travel but they have a low propensity to spend on tourism.
- Age has a negative effect on the desire to travel but a positive effect on tourism expenditure.
- Demographic aspects affect domestic and international tourism differently.

ARTICLE INFO

Article history:

Received 23 September 2013

Accepted 19 September 2014

Available online 16 October 2014

Keywords:

Tourism expenditure

Demographic characteristics

Life cycle model

Hurdle models

Cohort technique

Domestic and international travel

ABSTRACT

The paper explores how demographic changes in human populations may impact on tourism decision-making of households over their life cycle. By means of hurdle models, the study focuses respectively on the decision to travel domestically or abroad and investigates if statistically significant differences exist as to the impact of age and cohort on the decision to travel and tourism expenditure. Using a vast dataset on Italian Household Expenditures over the period 1997–2007 the empirical results show that demographic aspects do have a strong effect on the tourism behaviour of families and that cohort and age effects act differently on the decision of households to make a trip and on how much they spend on tourism. Age has a negative effect on the desire to travel but a positive effect on tourism expenditure. On the other hand, older cohorts are inclined to travel but they have a low propensity to spend on tourism. Relevant differences in income elasticity along the life cycle of households have also been found. Finally, age and cohort aspects have a different effect on the decision as to whether to travel nationally or internationally.

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1. Introduction

The tourism sector has become the main source of income for many countries contributing strongly to their economies, generating markets for a wide variety of goods and services both directly and indirectly related to tourism (Balaguer & Cantavella-Jordá, 2004; Eugenio-Martin & Campos-Soria, 2011).

However, the recent report on Demographic Change and Tourism (DCT) by the World Tourism Organization & European Travel Commission (2010) has highlighted that the demographic

changes in modern societies have created new challenges for the development of tourism due to their implications on tourism participation behaviour (see also Nickerson, 2000; Reece, 2004). Even before the DCT report, the German Federal Ministry of Economics and Technology published its own report on the relationship between tourism and demography in Germany. It found that demographic changes may be both an opportunity and a risk for the future development of tourism in Germany (Federal Ministry of Economics and Technology, 2009) (FMET).

According to the DCT and FMET Reports, the main socio-demographic changes that may impact on the development pattern of leisure and tourism are: a higher life expectancy, a healthier ageing population, a smaller family size, a higher share of the population with a high level of education and population migration. Without doubt these socio-demographic changes affect tourism participation behaviour; they represent external factors that shape tourism demand affecting the decision to participate in

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tourist activities, the type of tourist that will travel, where tourists travel to, the type of destination chosen, the length of holiday, how much to spend, etc. (see [Glover & Prideaux, 2009](#)).

Although demography is clearly relevant – for its implications in terms of marketing policy and strategic planning – the relationship between tourism and demographic changes, in modern developed societies, has not received much attention from tourism scholars, or better the approach to it has been fragmented focussing on specific population groups like younger or senior citizens (see e.g. [Fleischer & Pizam, 2002](#); [Glover & Prideaux, 2009](#); [Li, Li, & Hudson, 2013](#); [Szromek, Januszewska, & Romaniuk, 2012](#)). The only exception is the paper by [Yeoman, Schanzel, and Smith \(2013\)](#) that presents an analysis on the relationship between demographic changes and tourism in New Zealand following a complete and holistic approach. [Yeoman et al. \(2013\)](#) introducing the concept of sclerosis of demography argued that demography is a key driver for future tourism demand offering opportunities but also posing threats. They stated that the “*tourism industry is in a downward spiral of decline with tourists spending less monies year on year because of ageing populations, resulting in falling productivity and less disposable income in future years*” (p. 91) (see also [Yeoman, Hsu, Smith, and Watson, 2011](#)). Previously, [Hall \(2005; 2006\)](#) identified the ageing population as a key factor affecting the future scenario of tourism. [Sedgley, Pritchard, and Morgan \(2011\)](#), exploring the research on tourism and ageing, advocated complementing existing approaches to the study of tourism in later life by involving gerontologists and tourism scholars, in order to help to reformulate tourism and ageing research.

It is worthy of note that, even if at a worldwide level demographic changes may be significant not all of them are relevant to the future development of tourism. FMET argued that demographic changes may be relevant to tourism only if they “*arise in those groups (e.g. older people, children, the less affluent, single parents) which represent a sizeable volume, will be considerably larger or smaller in volume and whose behaviour differs from other groups*” (p. 6).

Along the lines of the aforementioned literature which deals with the effects of demographic changes on tourism demand and on the basis of the suggestions of the DCT and FMET Reports, this paper focuses on the relationships between demographic dynamics and the decision of people to make a trip for personal purposes and how much they spend. The study examines if and how the demographic changes occurring in Italian society affect Italian households as regards travelling and spending on leisure activities.

More specifically, this article investigates tourism spending patterns over the life cycle of households by applying a cohort approach to isolate time, socio-demographic and economic factors. This approach enables us to analyse whether changes in travel behaviour are due to the ageing process, the particular moment in history being analysed and the personal circumstances of an individual's life.

Within this framework, the study investigates whether there are age and cohort differences as regards the tourism participation decision and tourism expenditure over the life cycle of households (see e.g. [Aguilar & Hurst, in press](#); [Attanasio, Banks, Meghir, & Weber, 1999](#); [Attanasio & Weber, 1994](#); [Blundell, Browning & Meghir, 1994](#); [Browning, Deaton, & Irish, 1985](#); [Jappelli, 1999](#)). The study also explores whether the impact of age and cohort is different between households travelling domestically and those travelling abroad.

The Italian context is particularly appropriate in a study on the relation between demographic changes and tourism for several reasons: over recent decades the purchasing power of households has fallen, there has been a lower rate of fertility, the population has aged and there are more people of working age without a job. There

has also been an increase in voluntary childlessness which has resulted in a reduction of the average household size and has produced a large proportion of childless households. There has also been a decrease in official and *de facto* couples and an increase in one-person households.

The analysis has been performed on time series of cross-sectional data for the period 1997–2007 involving a huge sample of 253,858 households drawn from the Italian Household Budget Survey designed by the Italian Statistical Office. Conceptually, the study proposes a microeconomic tourism demand analysis enclosing the framework of the life cycle theory ([Blundell et al., 1994](#)). By means of cohort techniques, we model tourism participation and expenditure over the household life cycle disentangling age, cohort and time effects ([Deaton, 1985; 1992](#)). This enables us in a broader way to identify consumption patterns related to demographic changes ([Attanasio et al., 1999](#); [Attanasio & Weber, 1994](#); [Deaton, 1992](#)). Moreover, as tourism is not a basic need, it is plausible to hypothesize that some individuals could decide not to participate in tourist activities for different reasons like budget and time constraints. Others might travel only once a year or every two or more years, thus not frequently participating in the tourist market. In all these cases individuals have zero tourist expenditures. The matter of zero tourist expenditures has been treated here by means of hurdle models that also allow control for selection bias and can simultaneously analyse the different determinants of participation and consumption decisions. As different specifications of hurdle models exist, the most suitable specification was not identified *a-priori* but by means of a statistical modelling selection.

The paper is structured in the following way. In Section 2 a presentation of the life cycle theory, the cohort approach and tourism demand literature will be made. The next section presents the methodology of the study, followed by the presentation and discussion of the database and empirical findings. Some final remarks are left for the concluding section.

2. Theoretical framework

2.1. Life cycle model and cohort approach

As mentioned previously, the purpose of the paper is to examine in greater depth how and to what extent tourism consumption is affected by demographic aspects and dynamics. In doing so, the analysis of the tourism expenditure of households over their life cycle becomes the most suitable theoretical framework to identify the effects of socio-demographic characteristics on tourism demand.

The life cycle theory assumes that the members of a household make rational choices about how much they want to spend at each age, limited only by the resources available. By building up and running down assets, working people can make provision for their retirement, and more generally, tailor their consumption patterns to their needs at different ages, independent of their incomes at each age. According to the life cycle theory, individuals build up assets during the initial stages of their working life and then, during retirement, they make use of their stock of assets. Working people save up for their post-retirement life and change their consumption patterns according to their needs at different stages of their life ([Aguilar & Hurst, 2013](#); [Attanasio et al., 1999](#); [Attanasio & Weber, 1994](#); [Blundell et al., 1994](#); [Browning et al., 1985](#); [Jappelli, 1999](#)).

Empirical evidence highlights the role of the life cycle model in investigating consumption behaviour for a large set of goods and services (see e.g. [Aristei, Perali, & Pieroni, 2008](#); [Chen, Wong, & Lee, 2001](#); [Deaton, 1992](#)).

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