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The trouble with American tourism

With locals too broke to take a break and trade tensions deterring foreign visitors, the economic effects could be dire

RANA FOROOHAR

Rana Foroohar YESTERDAY

By the time you read this column, I will be lounging on a Hawaiian beach, rum drink firmly in hand, with a group of friends from all over the world who have rented a house together with our families for the summer holiday.

We're lucky, but so is our host state. Hawaii's economy revolves around such tourism — it's the major industry and most others are dependent on it. Hawaiian tourism returned to its pre-financial crisis levels only last year. But if recent indicators are right, tourism there — and in many other places — may be about to fall off a cliff.

According to a recent survey by insurance group Allianz, only 42 per cent of Americans say they'll be taking a summer holiday this year, the lowest since 2013. Financial concerns are the main reason: of those not going away this summer, 44 per cent said they did not have the money.

Americans often borrow money to go on holiday, but with consumer debt at nosebleed levels, and market volatility making people worry about their long-term savings and security, the US consumer has begun paying down credit-card debt and even cutting back on things such as motor fuel in the middle of vacation season.

So much for those 11-hour road trips to the Carolina coast that were the stuff of my own childhood holidays (ever the thrifty immigrant, my father would force my brother and me to pretend to be aged 12 well into our teens so we could get free breakfast in motels).

Back then, even this sort of holiday was an indulgence for many Americans. But tourism has since gone mass market; it now makes up nearly 8 per cent of the US economy. The US benefited from a $69bn surplus on international travel last year, reducing the country's overall trade deficit by 11 per cent, according to Tori Barnes, executive vice-president of the US Travel Association.

Which is why it's such a bitter irony that the US's trade deficit-obsessed president is scaring away foreign travellers with his xenophobic rhetoric. Chinese tourism to the US is down by more than 8 per cent since the US-China trade war began.

But travel from Germany is down nearly as much, 7 per cent, and visitors from Canada and South Korea are less enthusiastic about the US, too. Merrill Lynch says that if Chinese tourism alone were to fall by 50 per cent, it would cost the US industry $18bn.

Already, top real estate markets in the US have felt the pain. Foreign buyers have, over the past few years, also been some of the top bidders on luxe properties in places such as Manhattan, which has seen a big softening in the high-end property market in the past two years.

When I bought my own Brooklyn townhouse in 2007, the competing bidders were a German and a Brazilian. I doubt that would be the case today.

The economic dominoes may fall further. Many retail companies with slim margins that make money from tourists are already in trouble. Macy's, the department store, is a notable example — it recently issued its second profit warning this year, citing a drop in spending by holiday travellers.

Despite Donald Trump's boasts about the "robust" economy, and record low unemployment, it's worth remembering that a lot of job creation in the US in recent years has been in areas such as travel and tourism, or in others, like retail, food, hospitality and leisure services, that depend on them. These aren't high-paying jobs, but they are the ones we have — and now they may be threatened.

Recently, I've spoken to some high-level investment strategists who believe the trouble in US tourism could have a knock-on effect on the rest of the global economy. Direct receipts from tourism totalled $1.6tn in 2017, or 2 per cent of the entire world economy. But the World Travel & Tourism Council estimates that the amount of economic activity attributable to the sector is much larger, reaching $8.8tn in 2018 and supporting as much as 10 per cent of all jobs on the planet.

Ulf J Lindahl, chief executive of currency managers AG Bisset, believes that the surge in cheap flights and mass tourism in recent years could be the global economy's Achilles heel. "Everyone goes on vacation, but it's also the thing that you can cut quickly — unlike your car or your phone."

What if, he wonders, a bigger decline in global travel led to a cascade of corporate bankruptcies, which in turn sparked the credit crisis that many people believe will be at the heart of the next global downturn?

It's possible. But it's also possible that America's loss will be the rest of the world's gain. According to the journal Tourism Economics, the growth in US tourism last year was minuscule compared with other parts of the world. Perhaps next year I'll save time and money and just meet my London friends in Spain.

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