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Where have all the tourists gone?

Leisure travel has been hit hard in many parts of the district. Tourism businesses and promoters have been forced to adapt

By PHIL DAVIES
Senior Writer

Last winter ice lay thick on Mille Lacs, and walleye and perch teemed below it, ready for the taking from fishing houses set up on the surface of the giant lake in north-central Minnesota. There was plenty of snow, too, for those who like to barrel over the ice and through the woods on powerful machines. Yet it was a winter of discontent at McQuoid's Inn, a year-round resort in Isle that rents snowmobiles and fishing houses and takes guests out on guided fishing trips.

Corporate outings, which typically generate a third of the resort's winter business, dropped by 40 percent, said owner Terry McQuoid. Companies that in past years treated their employees or clients to several days of icebound camaraderie either canceled their trips or cut back to one or two nights. In addition, fewer families and couples came north on weekends.

To cut costs, McQuoid and his wife Lynda closed some cabins, laid off employees and tried to negotiate discounts with suppliers and utilities. In March they put their house up for sale to raise cash. "I've worked for myself and owned my own businesses on the lake for 35 years, and it's definitely the toughest that I've ever seen," McQuoid said. "But what I'm more worried about is where it's going to go [this] summer. How far are we from where it's going to turn around?"

Optimism goes with the territory in the tourist trade, but a lot of other people are asking the same question this spring. Many Ninth District businesses that depend on tourism have struggled since last summer, when high gasoline prices and the global recession sapped Americans' will to roam. In the fall the crisis on Wall Street and waves of job losses caused a sharp reduction in corporate outings, visits to tourist attractions and spending on everything from lodging to restaurant meals to souvenirs.

Travelers stayed home or dialed down their ambitions in the Upper Peninsula of Michigan, where many motels and bed-and-breakfasts were hard up for guests; in South Dakota, where pheasant hunting guides saw fewer customers; and in St. Paul, Minn., where some winter events scheduled for the downtown convention center were canceled.

Fewer tourists translate into less consumer spending and lower tax receipts—money that drives the economies of many communities in the district, especially during the summer. Minnesota tourism was estimated to be an $11 billion industry in 2006, supporting almost a quarter of a million jobs and generating $2 billion in government revenue. In Montana, a draw for sightseers from across the nation and around the world, catering to out-of-state visitors accounted for about 8 percent of all employment in 2005.

Some tourist areas in the district have weathered the recession fairly well so

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far. The Black Hills in South Dakota, for example, benefited last year from a short, intense tourist season and proximity to areas active in oil and gas drilling. In the embattled eastern part of the district, a number of tourist towns have shown surprising resilience in the face of worsening economic conditions. But the pain is widespread; since last summer year-over-year numbers for tourist visitation and spending have gone inexorably downhill in most parts of the district.

Last year tourist attractions and promotional organizations were already adapting—discounting, cutting operating costs, marketing closer to home—and those strategies are likely to be employed with even greater urgency this year. The summer, the heart of the travel season, will be a time of testing for tourist businesses and their host communities. Industry observers expect the deepest recession in decades to take a severe toll on businesses that were already struggling before the downturn.

Having a marvelous time—at home

In the summer of 2008, soaring gasoline prices were the chief concern of tourist businesses and state and local tourism officials. With the exception of western Montana, the district doesn't attract legions of air travelers; tourist attractions and related businesses such as hotels and restaurants rely on people seeking relaxation and adventure via automobile. In July gasoline prices in many parts of the district topped $4 per gallon, prompting many travelers to curtail driving vacations and weekend getaways.

As it turned out, escalating fuel prices were only part of a growing problem for the region's tourism industry. As the summer wore on, a deteriorating national economy compounded the effects of pump shock. As housing values dropped and 401(k) plans shriveled, more and more Americans lost their zest for travel. By October motor fuel prices had fallen, but in the wake of the banking crisis and mounting layoffs, people mostly stayed at home, saving their money and anxiously watching the gyrations of the stock market.

The effects of this double whammy are apparent in national travel statistics. Demand for overnight accommodation is a key gauge of tourist activity, although room demand figures include business travel. Nationwide data compiled by Smith Travel Research, a company that tracks the performance of the lodging industry, show a slight year-over-year drop in room demand over the summer, then steeper declines in the fall (see Chart 1). And the U.S. Travel Association estimates that domestic trips in 2008 declined about 2 percent compared with the previous year—the first drop in five years.

Tourism has also retrenched in the district. Fewer people visited national parks in the region last year; out of 14 national parks, lakeshores and national monuments in the district, 10 reported declines in visitation from 2007. Visits to other attractions such as historic sites, museums and festivals also declined in most states, as did overall demand for overnight accommodation. From May through December aggregate lodging demand in the five district states and the U.P. of Michigan fell 2 percent year-over-year, according to Smith Travel.

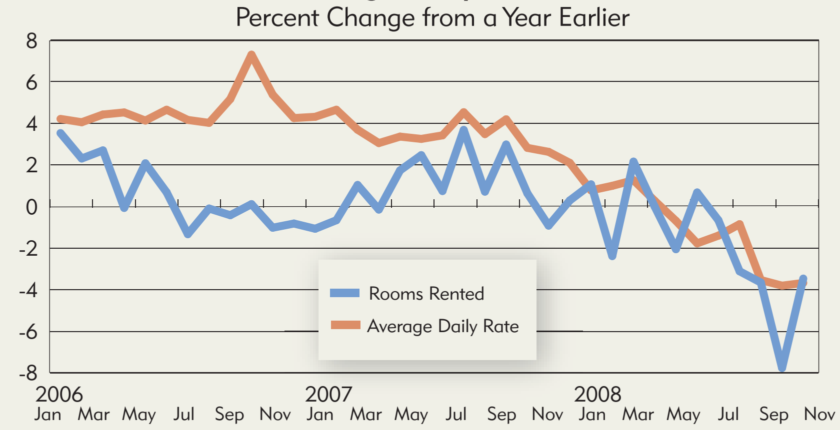
But this general pullback from travel hasn't manifested itself in every district state and community to the same degree. Because of regional differences in geography and economic health, the one-two punch of high gas prices and the recession has socked some tourist destinations while dealing others only a glancing blow.

Distress signals

Minnesota, the U.P. and Montana appear to have suffered the most from the slowdown in leisure travel. They follow the national pattern of significant, accelerating declines in demand for lodging since last spring (see Chart 2). And their tourism industries show other signs—less visitor traffic, declines in tourism tax revenues, struggling businesses—of systemic stress.

Leisure travel is a discretionary expense, and slumping economies in Minnesota and the U.P.—adding insult to the injury of high summer gas prices—have constrained spending on nonessentials. Tourism in Minnesota and

Chart 1
U.S. Demand for Lodging and Average Daily Rates*
Percent Change from a Year Earlier



*Adjusted for inflation Source: Smith Travel Research Inc.

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One of the Minneapolis Fed's congressionally mandated responsibilities is to gather information on the Ninth District economy. The *fedgazette* is published bimonthly to share that information with the district, which includes Montana, North and South Dakota, Minnesota, northwestern Wisconsin and the Upper Peninsula of Michigan.

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the U.P. relies to a considerable extent on in-state residents, so when the economy headed south in Minnesota and Michigan (unemployment has been high in both states relative to other district states since 2007), so did the fortunes of tourist attractions and businesses.

Recent figures on visitation in Minnesota and the U.P. aren't available, but a downward trend in lodging demand is clear in the Smith Travel data. In Minnesota year-over-year demand for accommodations fell every month from May through October. Some of that drop entailed business travel, but undoubtedly leisure travelers—who drive up room demand in the summer and fall—were scaling back as well.

McQuoid can attest to that. His summer fishing and golf business was "OK," he said, although resort guests were booking at the last minute rather than planning ahead. But in the fall bookings fell 10 percent to 15 percent compared with 2007.

At the Saint Paul Hotel in the Twin Cities, a magnet for urban tourists throughout the Upper Midwest, business started declining in the spring of last year. Occupancy and revenues at the luxury hotel had steadily increased in recent years, said General Manager David Miller. Not so last year; occupancy fell slightly below 2007 levels in the second quarter and dropped 15 percent after July, despite getting a boost from the Republican National Convention in September. Leisure bookings and corporate meeting business declined in equal measure. "We are a destination hotel, so for the most part downturns in the economy haven't affected us much," Miller said. "But this one has."

The nearby Saint Paul RiverCentre convention complex has also felt the impact of the recession. Meeting and event activity began waning in December, said Ted Davis, a spokesman for the facility. Some winter events were downscaled, and others, such as a consumer boat show slated for February, were canceled.

Employment at hotels, restaurants and other leisure and hospitality businesses that depend on tourists for a good part of their livelihood declined last year in Minnesota and in the U.P. (as well as in Wisconsin, although compared to its neighbors, the state saw a less dramatic annual drop in lodging demand, partly because of a lackluster tourist season in 2007).

In Montana the dynamics of decline differ somewhat from those at work in the eastern part of the district. Although the national recession has affected the state—the unemployment rate rose to 5.4 percent in January—economic conditions in the Treasure State were rosier than in the nation as a whole last year. But unlike the district's Great Lakes states, Montana draws about 60 percent of its visitors—most of them headed to the mountainous western third of the state—from beyond its borders.

The University of Montana estimated that nonresident visitation declined almost 4 percent last year compared to 2007—the biggest annual drop in more than a decade. Moreover, year-over-year lodging demand dipped in May and declined further for the rest of the year.

In a downturn some tourist businesses and communities buck the overarching state or regional trend. For example, ski resorts in Minnesota, Wisconsin and the U.P. reported stronger overnight bookings last winter than resorts in Colorado. "It appears that the ski season went quite well in the Upper Midwest," said Chris Stoddard, executive director of the Midwest Ski Areas Association. He speculated that residents of the region who would typically fly out west to ski opted to hit the slopes closer to home.

Also, there's evidence that some tourist towns in the Great Lakes states, such as Duluth, Minn., Hayward, Wis., and Sault Ste. Marie in the U.P., have so far escaped the full brunt of the reces-

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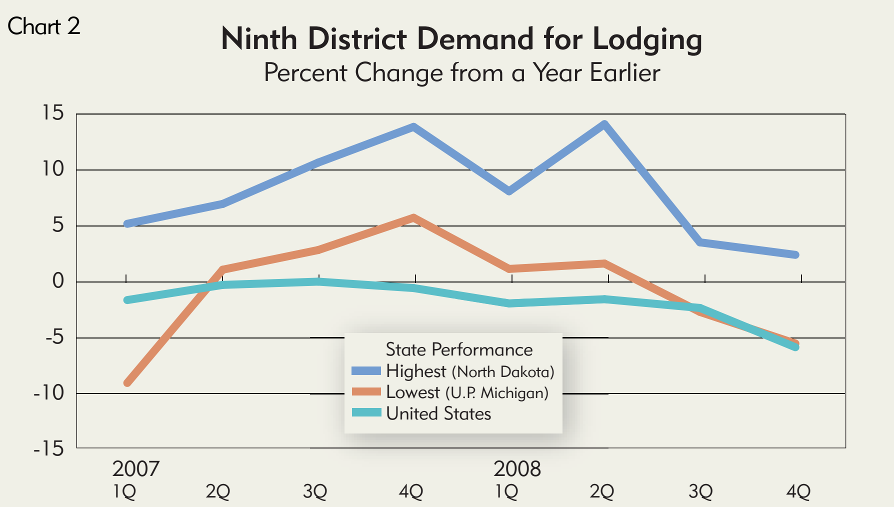
Chart 2

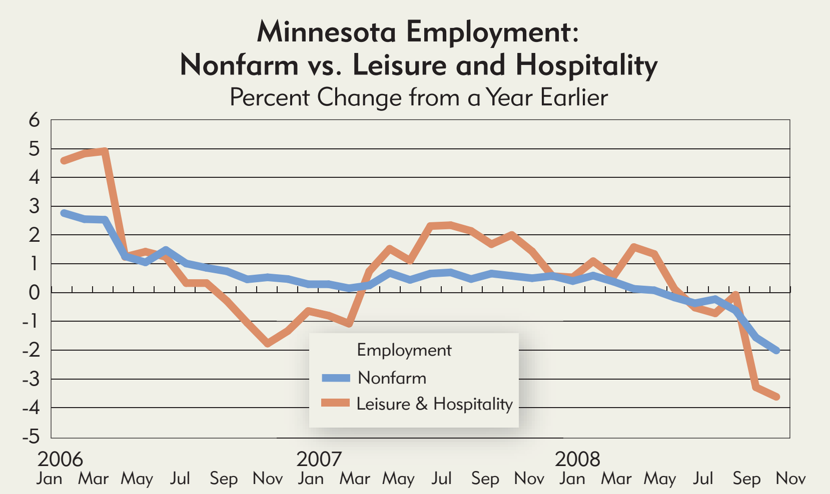


Source: Smith Travel Research Inc.

MINNESOTA TRENDING DOWNWARD

Last year the trees had barely leafed out before the recession began blighting tourism in the state. Lodging demand and leisure and hospitality employment declined at an increasing pace through the summer and fall as Minnesota residents cut back discretionary spending.

Smith Travel data show that statewide, year-over-year demand for accommodations fell slightly last May, declined further in July and dropped more than 8 percent in October. The state began shedding leisure and hospitality jobs in August, at a faster pace than for total nonfarm employment (see chart). By November, 4,700 fewer people worked at hotels, restaurants and other tourism-related businesses.



Source: U.S. Bureau of Labor Statistics

Hospitality employment at the local level doesn't jibe as neatly with lodging trends, but in the Twin Cities and the resort city of Brainerd, lodging demand last year mirrored the statewide picture. In the metro area year-over-year room demand fell in May, rose in August and September (due to the Republican National Convention), then dropped steeply in the fall.

However, Duluth—a popular year-round driving destination for Twin Citians—was more successful at luring visitors; after a slow start due to a cool spring, room demand increased compared with 2007 and didn't fall markedly until November. Separate lodging tax figures show that last December the city attracted roughly the same number of overnight visitors as it did a year earlier.

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sion because of their appeal as affordable driving destinations.

Going to Fargo, eh?

In contrast to Montana and the district's eastern states, tourism in the Dakotas held its own last year as the recession deepened across the country. Lodging demand in South Dakota was steady during the peak months of July and August, and demand in North Dakota through last summer and fall actually increased over 2007. Tourist visitation and leisure and hospitality employment in the two states were sustained by a robust regional economy based on agriculture and oil and gas drilling in North Dakota, Wyoming and eastern Montana.

In Fargo, North Dakota's largest city, evidence of slackening tourist activity was scant. All last summer and fall, the Fargo-Moorhead metro area posted impressive gains in lodging demand over 2007. Cole Carley, president of the Fargo-Moorhead Convention & Visitors Bureau, said that leisure visitors came to shop, attend athletic tournaments and take in special events such as the Red River Valley Fair. Judging by U.S. Customs Service border crossing figures and informal counts of vehicle license plates at shopping malls, many visitors were Canadians taking advantage of a weak U.S. dollar.

Reptile Gardens, a family-owned business in Rapid City, S.D., that displays rare tropical plants and reptiles, saw about 1 percent fewer visitors last year than it did the previous season. But Public Relations Director John Brockelsby isn't complaining. "The fact that last year we were near what we did in 2007, given the gasoline prices and everything else, we look at it as a huge success," he said. Brockelsby, who is also president of the Governor's Tourism Advisory Board, said that the pine-clad Black Hills area benefits from its proximity to the energy-rich Williston Basin because "typically the areas where the energy is aren't the most scenic." Although it's about 300 miles south of the Canadian border, the Black Hills is also one of the closest major tourism destinations for travelers from Manitoba or Saskatchewan.

After Labor Day business dropped off at Reptile Gardens and other Black Hills

attractions compared with 2007, but by then the tourist season was mostly over; three-quarters of visitors to the area come between May and September.

One area of the Dakotas that experienced a marked drop in tourist visitation and spending last year was southeastern South Dakota. In Mitchell, a popular stop for travelers headed west on Interstate 90, visitor numbers at the Corn Palace were down last summer, as was participation in the area's fall pheasant hunt.

Discount it, and they will come

For all the variation in tourism activity across the district states, the big picture is of an industry confronting an altered economic landscape. As long as the recession lingers, states, communities and individual businesses will continue to compete for the attention of a diminished pool of travelers.

When demand for a product shrinks, the classic response is to lower its price, and many tourism operators have adopted that strategy to stay in the game. They know that economic strife has made travel consumers more price sensitive; among the businesses worst hit by the recession are those offering a high-end vacation experience, such as fly fishing guides and four-star hotels. (Smith Travel data show that luxury hotels nationwide saw sharper declines in occupancy last year than did midscale or economy hotels.)

Many tourist businesses are offering more for less. "When the economics turn against you, the only way to deal with it is to make some special deals for your customers to try to get them to keep coming back," said William Gartner, a University of Minnesota economics professor and an authority on tourism markets.

Despite softening demand for lodging, average room rates in the district increased for most of last year, according to Smith Travel. But in the fall the resolve of hotel, motel and B&B operators began to crumble; in September average room rates in the U.P. dropped 4 percent compared to the same month in 2007, and December room rates in Minnesota and Wisconsin also fell year over year. Lodging operators in the rest of the district were still holding out at year's end.

An e-mail survey last fall of Montana tourist operators by the University of Montana's Institute for Tourism and Recreation Research found that many businesses were reluctant to cut prices upfront, but were open to making deals—granting discounts for extended stays, for instance, or handing out coupons good for a price break on dinner.

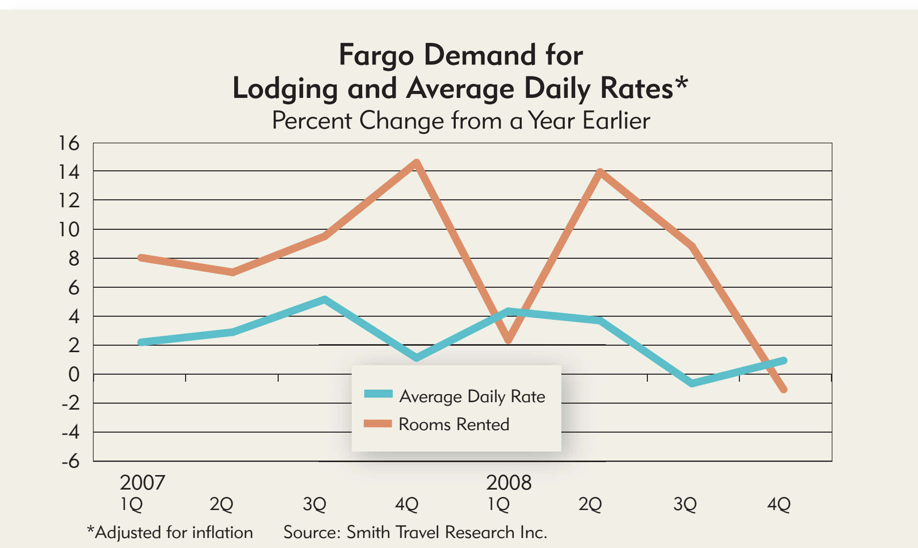
Last winter on Mille Lacs, McQuoid felt compelled to give a discount on accommodations or fishing house rental to anyone who demanded it. Better to land customers, he figured, than lose them to another resort down the road. "They know if we don't do it, someone else will," he said. Reptile Gardens stepped up its offerings of coupons and special packages last summer, and Brockelsby said he planned more of the same this season.

On the other side of the ledger, business owners have cut costs to compensate for lost revenues and gird themselves for an upcoming season that promises to punish inefficient opera-

NORTH DAKOTA BUCKS THE TREND

North Dakota is the least visited state in the district, according to lodging statistics; last July travelers booked four times as many overnight stays in Minnesota as they did in the Peace Garden State. But more and more people have come to North Dakota in recent years, and they apparently like to come back, even in uncertain times.

Although fewer people visited Theodore Roosevelt National Park last year than in 2007, aggregate visitation at major attractions such as the International Peace Garden and the Fargo Air Museum through September was 3.1 million, a 2 percent increase over the same period a year earlier. The number of Canadians entering the state to sightsee and shop rose 16 percent.



The state also posted strong gains in demand for accommodations last summer and fall (see chart); rooms sold last year increased, even though demand was also high in 2007. Only November—a slow tourism month when financial panic gripped the nation—saw an annual decline, and it was slight.

A similar story played out in the Fargo-Moorhead metro area. Lodging demand was 12 percent higher in July and August compared with 2007, and year-over-year demand also increased in September and October before declining for the rest of the year.

tors. The Institute for Tourism survey found that Montana businesses were planning to lay off employees, delay capital improvements, reduce energy consumption, scale back advertising and make other cuts intended to increase the chances of survival in lean times.

Last winter Reptile Gardens established a "Go Green" committee to explore energy-saving measures such as turning off lights and turning down thermostats (although reducing heating in the reptile enclosures isn't an option). The attraction also planned to hire 5 percent fewer seasonal workers this summer than it did last season, Brockelsby said.

In a similar bid to save on labor, the Saint Paul Hotel instituted a salary freeze last fall. And the hotel has cut some upscale services that were part of the $200-per-night package before the recession bit into profits. "It's difficult when you run a hotel like this," Miller said. "You have to find the line between cutting costs to save expenses and not reducing the guest experience."

Sharpening the message

Travelers are the lifeblood of the tourism industry, and much of the responsibility for keeping it flowing falls to tourism offices, regional tourism associations, and local convention and visitor bureaus. Individual tourist operators in the district usually lack the wherewithal to mount concerted, far-reaching marketing campaigns. "We rely upon the regional marketing organizations to get people in the area," said Brockelsby of Reptile Gardens. "Our marketing dollars are spent on getting them once they're here."

Taxes levied on lodging, dining and entertainment (often supplemented by state or city funding) support promotional efforts. But in areas of the district hard hit by the recession, reduced tourist spending has cut into that source of revenue. Tom Nemacheck, executive director of the Upper Peninsula Travel & Recreation Association, expects receipts from a 1 percent tax on lodging—the basis for 90 percent of the association's annual budget—to drop over 10 percent this year. "As that continues to decline, we of course will have to do less," he said.

Striving to make the most of limited funds, promotional organizations have shifted their focus over the past year in response to depressed travel. Highlighting customer value and timeless appeal are in. Going it alone and trying to bring the world to your door are out.

Affordability and proximity are key themes of recent marketing campaigns in the district. "Your vacation dollars go far; you don't have to," declare this season's ads for U.P. tourism. Shaken by job losses and financial turmoil, people may not spend several hundred dollars on a plane ticket and luxury hotel. But they may drive to the U.P., Black Hills or North Shore of Lake Superior to stay in a modest B&B or campground.

For years the Black Hills, Badlands and Lakes Tourism Association had cast a wide net for visitors, advertising in metro areas as distant as Phoenix and Dallas. More so than other parts of the district, southwestern South Dakota has historically drawn a fair amount of fly-and-drive tourist traffic—visitors who board a plane to Rapid City, then rent a car to tour the Black Hills and Badlands. For the 2008 season, the association lowered its sights, restricting advertising to the Midwest and Great Lakes states.

"We could see from the gasoline situation and the way the national psychology was going that we better stay a little closer to home," said President Bill Honerkamp. The association planned to stick with that approach this summer and fall.

In Duluth, which has long relied on Minnesota residents streaming north on Interstate 35 to fill its hotels, B&Bs and eateries, the watchword this season is value. Pressing home that message even more urgently than last year, the Duluth Visitors & Convention Bureau plans to promote specials offered by city hotels, motels and B&Bs in "e-blasts"—weekly e-mails to residents of the Twin Cities and other drive markets.

When the economy sours and disposable income wanes, people seek out familiar, low-risk vacation spots, said Gartner of the University of Minnesota. That presents an opportunity for tourist destinations and businesses to market aggressively to their customer base—repeat visitors and new ones predisposed to certain types of destinations. "The core customer group is the one

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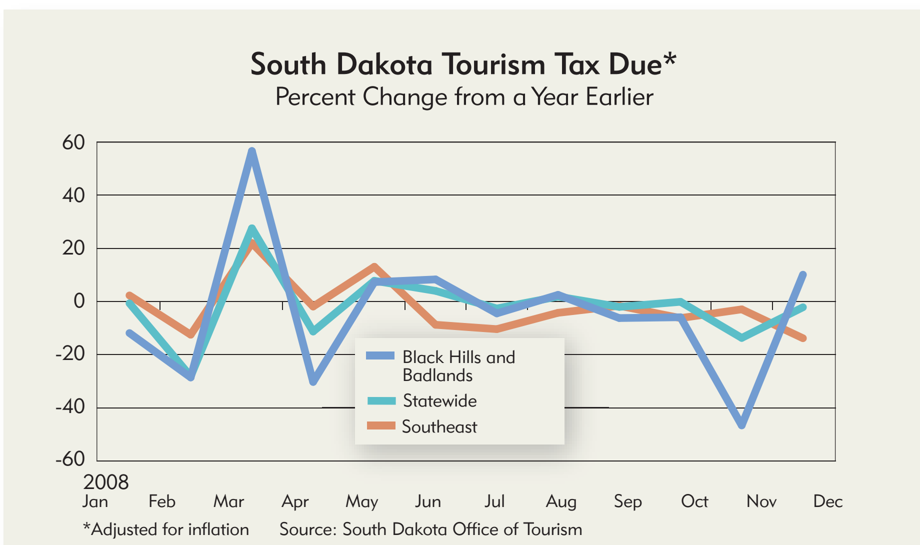
SOUTH DAKOTA HOLDS ITS OWN

It was business as usual for tourist operators in the state in 2008—for the all-important summer season, at least. Canadians, farm families and energy-patch workers came to the Mount Rushmore State with money in their pockets. Compared with the previous year, summer demand for accommodation increased in every month except June. Adjusted for inflation, summertime tax assessments on a gamut of tourist-oriented goods and services declined only slightly.

However, in the fall bad economic news put an extra chill in the air. Lodging demand fell below 2007 levels for the rest of the year (Rapid City was an exception), and in September tourism sales were down 3 percent.



Not all regions of the state were dealt the same hand. The tourist season in the popular Black Hills and Badlands followed a course similar to that of the state as a whole. But the southeastern part of the state fared worse; tourist tax assessments for the summer dropped about 9 percent from 2007 (see chart). Attendance at attractions such as the Corn Palace in Mitchell also fell, and in the fall fewer hunters came to the area to shoot pheasants. The owner of one guide service said that his sales were down over 20 percent for the season.

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that's really going to carry you through this recession," Gartner said.

Untrammeled nature has long been Montana's biggest attraction, and the state tourism office is capitalizing on it by pursuing outdoors enthusiasts. Such visitors, dubbed "geo travelers" by Travel Montana, will make the effort to hike, kayak and camp even if financial constraints force cutbacks in other areas of their lives, said Betsy Baumgart, administrator of the Montana Promotions Division, which includes Travel Montana. Expanding on an effort begun last year, the tourism office plans "to speak to that market" with tailored marketing materials such as online hiking trail guides, Baumgart said.

Other destinations that are resolutely pursuing core customers—often with focused promotions aimed at select ZIP codes and individual households—include Minneapolis ("cultural tourists" and sports fans), Duluth (Twin Cities families) and the Black Hills (middle-class families and "soft adventurers").

Tourism marketers in the district are also joining forces to leverage scarce marketing resources and increase their promotional reach. This summer Meet Minneapolis, the city's convention and tourism arm, will cooperate with its counterparts in St. Paul and Bloomington on joint initiatives such as a marketing effort to attract more families to the entire Twin Cities. And the Butte (Mont.) Convention and Visitors Bureau was planning to collaborate this spring with a nearby, smaller community on a TV advertising campaign in Spokane, Wash.

Bumpy road ahead

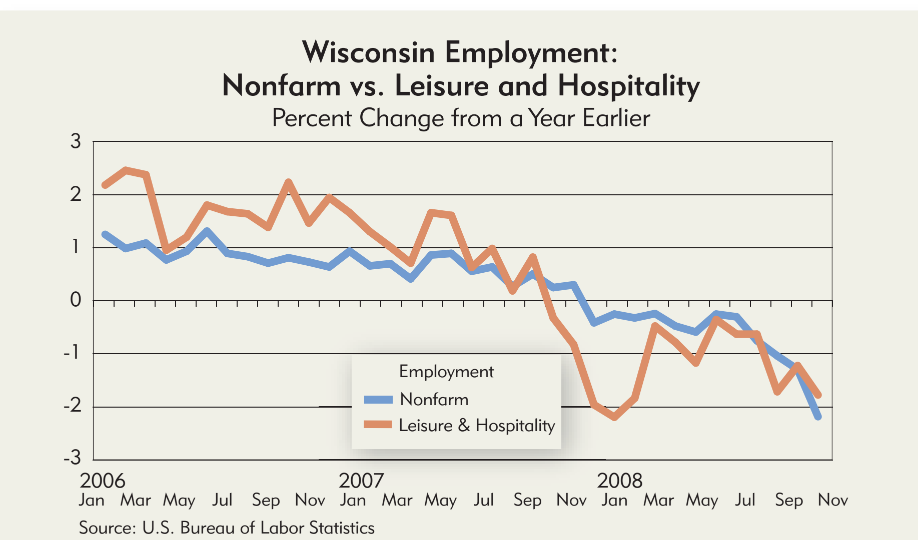
These coping and survival strategies will be vital for tourist businesses and boosters as they gear up for the busy summer season. Tourist visitation and spending this year is likely to decline, even in parts of the district such as the Dakotas that escaped 2008 largely unscathed. Most economic forecasts call for the recession to drag on at least through the third quarter, reducing spending on travel. The U.S. Travel Association anticipates a 2 percent drop in domestic trips this year and a 3 percent falloff in travel spending.

Canadian visitors probably won't make up for those shortfalls. Last sum-

WISCONSIN SEES ANOTHER POOR YEAR

The good news in Wisconsin last year was that summer lodging demand increased over 2007, although overnight stays in June were down because of flooding in the central part of the state. The bad news is that 2007 didn't set any records for tourist action. In contrast with other district states, demand for accommodations barely increased over the previous year. And visitation and travel spending dropped, according to a study by the state tourism department.

The upshot: Wisconsin tourism has stagnated since 2006 because of deteriorating economic conditions and competition from neighboring states. Leisure and hospitality employment declined year over year throughout 2008—a delayed reaction to the 2007 slowdown (see chart). Last fall the worsening recession cut sharply into lodging demand statewide.

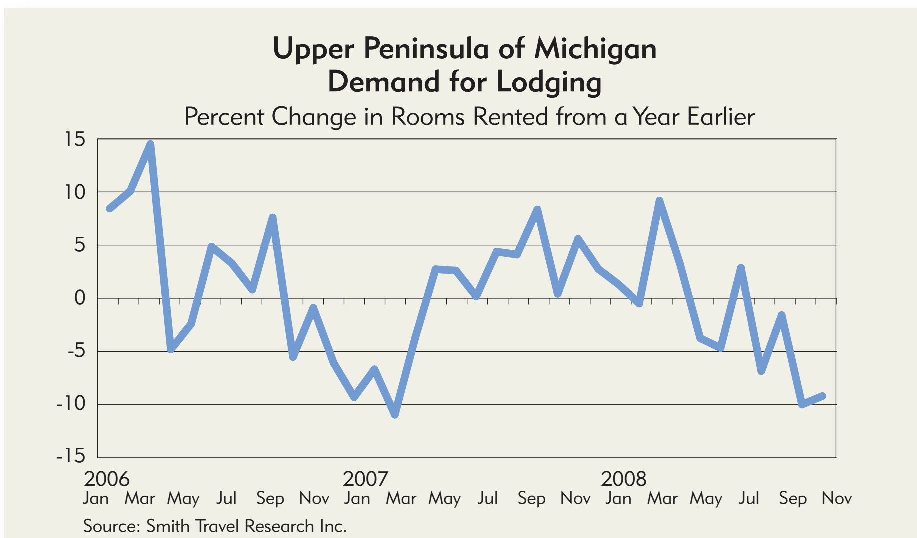


The recession's impact on communities in the district portion of the state has varied. In the northern resort town of Rhinelander, lodging demand fell for most of last summer and fall compared with the previous year. However, lodging taxes for Hayward and La Crosse indicate that tourist activity through the third quarter of last year was commensurate with the same period in 2007. Both cities may have benefited from their proximity to the Twin Cities, the source of a lot of tourist traffic into northwestern Wisconsin.

UPPER PENINSULA OF MICHIGAN FEELS DOWNTURN

Tourism in the U.P. took a beating last year, largely because the rest of Michigan was mired in deep recession exacerbated by the sinking fortunes of the auto industry. The eastern peninsula depends on tourist traffic flowing across the Mackinac Bridge, and last summer that traffic slowed noticeably, undermining the area's leisure economy.

Lodging sales in the U.P., measured by Smith Travel data and room-tax receipts, declined markedly through the summer and into fall compared with 2007 (see chart). Between June and October revenue due from a U.P.-wide bed tax fell about 10 percent from the same period a year earlier. In another indication of softening demand, average room rates dropped in the fall compared with the previous year.



Marquette also saw declines in lodging demand for the latter half of 2008, according to Smith Travel figures. But in Sault Ste. Marie, demand bucked the U.P. trend, increasing year over year in the summer before dropping sharply after September. According to local tourism officials, the border community attracted driving vacationers from other parts of the Midwest and Canada with Web promotions and radio ads produced jointly with the state tourism office. It probably also helped that local hotels, motels and bed-and-breakfasts were discounting; the average room rate fell over 3 percent for the year.

mer Canada's economy was relatively healthy, and its strong currency made getaways south of the border a bargain. Not so this year; the country slipped into recession at the end of 2008, and over the winter the loonie lost ground against the greenback.

Understandably, tourist businesses are nervous about what the season will bring. The University of Montana Institute for Tourism's fall survey of tourist operators in the state found that 28 percent expected business to decline this year—the most pessimistic outlook since the survey's inception in 1995. Many respondents said they planned to maintain their rates at 2008 levels in a bid to attract customers.

When hotels, water parks, outfitters and other tourist businesses suffer, so do their communities. Lower sales mean less money coursing through the local economy, reduced government revenues and lost jobs in towns that may offer few other employment options. (However, dependence on tourism raises questions about the costs as well as the benefits of tourism—see article on page 8.)

Norma Nickerson, director of the Institute for Tourism, said via e-mail that she expects leisure and hospitality employment in Montana to decline this year as the recession tightens its grip in the state, forcing businesses that so far have held onto their workers to lay them off.

The tourism industry in the district likely won't start growing again until regional and national economic conditions improve. Because of the importance of in-state travel in the eastern part of the district, prospects for recovery there will depend to a large degree on how quickly state economies in the region rebound. Tourist businesses in the Dakotas will keep their fingers crossed for modest increases in oil and natural gas prices to sustain incomes in the Williston Basin. In Montana and regional fly-drive markets such as the Black Hills, a key barometer will be the state of the national economy.

Brockelsby of Reptile Gardens was cautiously optimistic that the worst is already past: "Our hope for this year is to have an economy where the stock market isn't fluctuating 10 percent in a day … to get back that consumer confidence. If we can have that by spring, that would bode well for the 2009 season."

For some tourist operators in the district, this season may be their last. As occurred in past downturns such as the 1981–82 recession, businesses that failed to adapt to new market conditions, or were marginal before the recession, might be forced to close. "I think what you're going to see is that some people are going to hang it up," Gartner said.

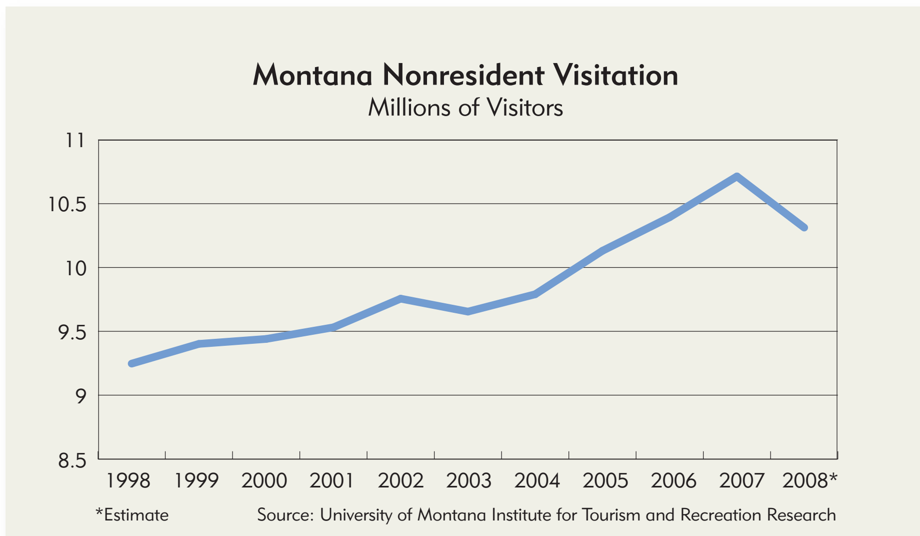
If that happens, it will create opportunity for other enterprises—a new B&B, an expanded golf resort or gift shop—when the national economy revives. Bryan Hisel, executive director of the Mitchell Chamber of Commerce, observed that the urge to pack your bags and get out of town is powerful and cannot long be denied. "One of the things people try not to give up in their lives is recreation or adventure," he said.

The district's tourism industry is likely to emerge from the recession battered and financially weary, but also wiser and better equipped to compete for travelers and their dollars. f

MONTANA SEES A RARE DECLINE

For Montana, which has seen steady growth in visitation in the past 20 years, last year's nearly 4 percent drop in travelers from outside the state was a heavy blow (see chart). Fewer visitors undercut the business of hotels, motels and resorts. Compared with 2007, statewide lodging demand last year was down over 2 percent, and the decline was particularly acute in late summer and fall; in November the year-over-year drop was almost 13 percent. For the most part that pattern held in Billings, Great Falls and Missoula.

There was also anecdotal evidence of lower demand for skiing accommodations in the state last winter; at the Big Sky ski resort, bookings received through year's end were running 12 percent below 2007 levels.



People who did visit Montana in 2008 spent less, on average, than they did a few years ago. A third-quarter survey of travelers conducted by tourism researchers at the University of Montana found that compared with the same period in 2005, average per-visitor spending fell 15 percent, with large decreases in outlays for retail goods, outfitters and guides, auto rental and entrance fees.

However, statewide leisure and hospitality employment increased last year. In past recessions in Montana, tourist-oriented job loss has lagged behind drops in visitation and lodging demand.

A nice place to visit, but …

Tourism can spark economic growth, but public funding of the industry is questionable

By PHIL DAVIES
Senior Writer

"Tourism promotion is an investment that pays off," declared the Minnesota tourism office last summer, pitching the state Legislature for more financial support. Claiming that tourism "plays a part in the economy of every single county in the state," tourism officials pointed to over 240,000 jobs and hundreds of millions of dollars in sales tax revenue attributed to the industry in 2006.

Tourism is widely perceived as an economic driver for states and communities, a powerful generator of wealth and jobs, especially in rural areas long dependent on natural resource industries such as agriculture, mining and forestry that have been volatile or in decline, or both. The promise of economic growth from tourism is the justification for public investments in the industry intended to spur further development.

Many rural communities blindly embrace tourism as the key to economic progress, said David Marcouiller, a professor of urban and regional planning at the University of Wisconsin-Madison. "It is easy to see why boosterism is so prevalent," he said via e-mail. "If you've already decided that tourism is what the community needs for development, then attracting more tourists is the mechanism to achieve that goal."

Tourism advocates insist that on the whole, tourism development is positive; it diversifies rural economies, lifts people out of poverty and helps finance upgrades to amenities that improve residents' quality of life. But is tourism necessarily a boon to district states and communities, and even if it is, should it be subsidized by state and local government to help it grow?

These questions are particularly germane during recessions, when cutbacks in discretionary spending—after all, nobody *has* to visit the Black Hills—punish the industry. Dwindling revenues force tourist businesses to cut their own spending and lay off workers. Last year cost-conscious Americans took fewer domestic trips than they did in 2007, according to the U.S. Travel Association, and they're expected to travel even less this year.

Before the current recession growth in tourist visitation had been slowing, pitting state against state and town against town in an often futile battle to increase market share, observed William Gartner, a University of Minnesota economist and expert on tourism markets. "We just don't have a lot of new travelers coming online," he said. "[Tourist destinations] are all competing with each other for the same customers."

Even in good times—many tourist areas in the nation and Ninth District grew rapidly in the 1990s—some have discounted tourism's value as an economic engine. Critics charge that most tourism jobs pay too little, and that tourist development can increase the local cost of living, overtax public services and despoil the natural environment. Debate among economists over these matters is vigorous and ongoing.

But even if tourism lifts the fortunes of some communities, the larger question remains of whether government should subsidize it by marketing tourist destinations, upgrading infrastructure in tourist areas, authorizing tourism taxes and providing other types of assistance. (Government also selectively aids other industries—helping exporters through state trade offices and giving tax breaks to energy firms, for example.)

Unless markets fail, there's no reason for government to interfere in private industry. And giving tourist businesses a leg up imposes opportunity costs on society: Tax revenues spent to promote tourism come out of somebody else's pocket, and they cannot be spent on "public goods" that benefit the state or community as a whole.

An economic boon …

Tourism has been likened to a form of mercantilism based on the three Gs—"get them in, get their money and get them out." Tourist towns leverage natural amenities such as mountains and lakeshore, together with developed attractions, to draw in visitors who buy goods and services in the community. That spending circulates in the local economy, fostering prosperity not just in the leisure and hospitality trade but also at other Main Street firms such as supermarkets, medical clinics, home builders and accountants.

In recent decades the economies of rural communities vested in tourism and recreation have grown much faster than those of towns without large stakes in those activities. A 2005 study by the U.S. Department of Agriculture's Economic Research Service (ERS) analyzed socioeconomic data for over 300 rural, "recreation-dependent" counties, including counties clustered in water-rich or mountainous regions of the district. Employment in the tourist-oriented counties grew, on average, at more than double the rate of other rural areas during the 1990s.

Because tourism is a labor-intensive industry, it provides a livelihood for people who would otherwise be unemployed or underemployed. Large cities with diverse economies typically offer residents plentiful job opportunities, but in smaller communities pickings may be slim for low-skilled workers such as laborers and students. If the mine has shut down and the lumber mill isn't hiring, a job in a restaurant, motel or amusement park puts bread on the table, or supplements income from other sources.

A number of studies, including the ERS report and a 2000 paper co-authored by Marcouiller, have shown that average per capita incomes in tourist counties are generally higher, and poverty rates the same or lower, compared with other rural counties.

Profitable, growing tourism businesses raise real estate values and generate increased tax revenues to pay for new roads, upgraded water systems, better schools and spruced up downtowns and parks. Public investments in infrastructure and community services may attract permanent residents and new industries that further expand the tax base.

These are the benefits of tourism development enumerated in economic studies that attempt to gauge the full impact of tourist visitation and spending on state and local economies. A 2006 analysis of Minnesota's tourist industry estimated that 41 million visitors spent $10.5 billion in the state that year, supporting 244,000 leisure and hospitality jobs and an untold number in related industries. A study released last year of South Dakota tourism pegged the total economic impact of the industry at $2.4 billion annually.

… or bane?

However, economic impact studies don't capture the costs of tourism development—how it affects the workforce and people who live in tourist towns year-round.

One of the sharpest criticisms of tourism is that the employment it offers—serving food, cleaning motel rooms, clerking in stores—doesn't provide a living wage. Many tourist jobs in rural areas are seasonal, and relatively low paying compared with those in manufacturing and resource-extractive industries such as mining and paper milling. Some researchers, including Marcouiller, worry about income inequity—the idea that tourism creates an underclass of workers toiling in subsistence-wage, dead-end jobs to serve well-heeled vacationers and seasonal residents.

Grounds exist for these concerns, although the low-wage question remains unsettled, partly because the tourism industry is ill-defined. (Gartner points out that lawyers, real estate agents and construction crews could also be considered tourism workers.)

Average per capita income may not reflect the earnings of the typical tourist worker, because a small number of wealthy residents can skew the numbers. In some analyses a truer picture emerges from data on earnings—income from wages and other labor. The ERS study found that the average job in recreation counties paid about 2 percent less than in other rural counties, although the study also found that resident workers of tourist areas on average earned more total pay—possibly because some workers held more than one job.

A number of case studies over the years of rural tourist communities have found that tourism does little to alleviate poverty or promote upward mobility. A study of a rural region of southwestern Wisconsin in the 1990s found that tourism supported a multitude of low-income workers and a much smaller cadre of well-off business owners and managers, but provided scant employment opportunity for middle-income households. Another charge leveled against tourism employment is that many low-skilled jobs at hotels, ski resorts and other tourist businesses are filled by temporary workers from outside the community, the state or the country. At the end of the season, they leave, taking part of the proceeds from visitor spending with them.

In addition to questioning the value of tourism jobs, critics of tourism development note that it can impose other, often unforeseen costs on communities:

▪ MORE EXPENSIVE HOUSING AND OTHER GOODS. The flip side of fast-rising incomes and land values is a higher cost of living that erodes the buying power of low-paid tourist workers and retirees living on fixed incomes. Marcouiller's 2000 study, co-written with U.S. Forest Service researchers, found that housing prices were higher, on average, in tourism-dependent counties than in other nonmetro counties.

▪ STRAINED PUBLIC SERVICES. Rapid population growth that often attends tourism development puts extra demands on roads, police and fire protection, water systems and other public facilities, particularly during the summer in the district. Local government may have no choice but to increase property and sales taxes (paid by residents all year) to pay for new and upgraded facilities and services.

▪ ENVIRONMENTAL DEGRADATION. Taken to extremes, tourism development can damage the natural amenities that attracted tourists—as well as seasonal residents and retirees—to a community in the first place. Air and water pollution and related health problems can also accompany heavy tourist development.

▪ INCREASED CRIME. Research has shown that crimes such as robbery, larceny and burglary are an unfortunate byproduct of tourism. A seasonal influx of tourists into a community creates targets for both homegrown criminals and predators from outside the area. The ERS study found that the rate of serious crime was 17 percent higher in recreation counties than in other rural counties.

The path not taken

Arguably, despite its drawbacks, tourism still offers many rural communities the best opportunity for economic growth. Few rural communities have realistic prospects for job growth in well-paying, year-round industries like mining, manufacturing and health care.

"The thing is, what alternative do you have?" said Gartner, observing that employment in traditional industries such as mining and wood products has been waning for decades. In a 2004 analysis of rural employment in the United States, Gartner found that for every new job created in extractive industries over the previous 30 years, nine were created in retail and service, sectors closely linked to tourism.

And a little help from government may foster tourism growth in areas of the district suited to such development. State tourism offices strive to draw visitors from outside the state to patronize tourist operations and related businesses. State and municipal taxes on lodging and restaurant meals underwrite the promotional efforts of local convention and visitor bureaus. Cities widen roads and install sidewalks to improve access to hotels and amusement parks.

But any government role in promoting tourism is suspect. Tourism, like any other industry in a market economy, is capable of thriving on its own without interference. Government support for tourism entails an opportunity cost, the path not taken when tax revenues go toward upgrading infrastructure in tourist areas, or extolling the charms of a particular state, region or city. (Minneapolis' convention and visitor bureau has an annual budget of $9 million, over three-quarters of it derived from city funds.)

Economic theory has established that government's role is to provide public goods such as highways, schools and parks that lay the foundation for economic growth. Every dollar spent on tourism is a dollar unavailable to pay for projects and programs that benefit society at large. Yes, tourism development generates tax revenues for the public coffers; but much—even all—of the development might have occurred without help from government agencies.

Moreover, taxes raised to assist the tourism industry are paid by a multitude of firms and individuals who don't benefit from tourism. Even tourism-specific taxes such as lodging taxes are passed on to business travelers as well as tourists, leaving companies with less money to spend on other goods and services. Such taxes act as a drag on economic growth, further damaging public welfare.

Government assistance isn't necessary for tourism to flourish in a state or community; tourist operators can help themselves by pooling their resources. Local or regional tourism associations, for example, tap their own members to pay for advertising, travel guides, trade show presentations and other promotions.

Private tourism groups in the district that raise funds from fees assessed on tourist businesses include the Upper Peninsula Travel & Recreation Association and Mississippi Valley Partners, a nonprofit organization that promotes 17 towns clustered around Lake Pepin in southeastern Minnesota. f

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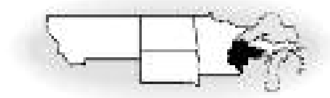

Latest sale: Minimum markup repealed

A federal district court in Milwaukee struck down a long-standing state law that required gas stations to mark up gas prices as much as 9 percent.

Originally passed in 1939, the law has been a target for elimination multiple times at the state Legislature. The state had until mid-March to file an appeal to the February ruling, but chose not to, likely because Democratic Gov. Jim Doyle has been a long-time critic of the law.

The ruling had markup critics celebrating what they claimed would be a 1 cent to 8 cent drop in gas prices for consumers. Supporters of the law said small mom-and-pop chains could be put out of business by larger retailers who can now sell gas at cost, or even use below-cost prices as a loss leader to get drivers into their convenience stores for other, more profitable purchases.

The ruling also affects retailers, who previously were prohibited from selling certain goods below cost. In 2003, the Federal Trade Commission ruled that markup laws discourage competition and raise consumer prices.

High speed rail on the fast track

Officials in the Badger State are eyeing transportation funds in the federal stimulus package to get high speed trains chugging between the state's two largest metros, and possibly beyond.

The federal stimulus earmarks $8 billion for high-speed rail, and many believe that a link between Madison and Milwaukee—discussed for more than a decade—could be high on the list, along with service improvements between Milwaukee and Chicago. There are reasons for optimism on the part of rail advocates: Midwestern congressional members carry considerable clout, as does a certain former senator from Illinois. Chicago is also vying to host the Olympics in 2016, and some cycling events might take place in Madison. Engineering on the Madison-to-Milwaukee route has already been completed and received federal environmental approval.

But this and other high-speed projects have been mothballed due to lack of federal or state funding. Current state estimates put the cost of the Madison-to-Milwaukee route at $500 million. Whereas the state would usually be on the hook for 20 percent of that cost, the use of federal stimulus money would mean the federal government would pick up the entire tab.

—Ronald A. Wirtz