Office for National Statistics

Article

National Accounts articles: Treatment of tourism in the UK National Accounts

An explanation of how tourism is treated in the UK National Accounts – within trade, within household expenditure, and bringing it together within the expenditure approach to measuring gross domestic product.

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1 . Introduction

This article aims to explain the treatment of tourism in the UK National Accounts. It aims to give a better understanding of domestic and national concepts of household spending and trade in national accounts and how these relate to calculating UK gross domestic product (GDP).

The expenditure measure of GDP records the sum of all final expenditures within the economy (GDP(E)). Household spending includes all expenditure made by households that are resident in the UK, irrespective of where the spending takes place – this is known as national spending. To include all expenditure within the UK economy, it is therefore necessary to add spending by non-residents that happens in the UK, and subtract spending by UK residents that happens outside of the UK. This is known as domestic spending. Therefore, household spending measures national expenditure, and adding the trade balance (exports to non-UK residents less imports by UK residents) converts them to domestic expenditure for GDP.

Another way to think of this is that GDP records the sum of all production activity within the economy (GDO(O)) – which will be consumed by domestic residents or through exports of that output by non-domestic residents. Tourism imports do not relate to UK domestic output – it would instead be recorded as the production of another country, so is not considered as part of UK GDP.

2 . Definitions

Before exploring this in detail it is useful to go through some important definitions.

UK resident

A person is a UK resident when they have a centre of predominant economic interest on the economic territory of that country — that is, when she or he engages for an extended period (one year or more) in economic activities within the UK.

National spending

This refers to spending by UK residents in the UK and abroad.

Domestic spending

This is spending in the UK by UK residents and foreign visitors.

Gross domestic product

Gross domestic product (GDP) is a measure of the total economic activity taking place on an economic territory (the UK in this example), which leads to output meeting the final demands of the economy. In other words, everything produced in the UK that is then sold to UK and non-UK residents. Therefore, GDP is concerned with domestic production and spending. There are three measures of GDP: output, income and expenditure.

Household final consumption expenditure (HHFCE)

Household final consumption expenditure covers all purchases made by UK resident households (either in the UK or abroad) to meet their everyday needs, such as: food, clothing, housing services (rents), energy, transport, durable goods (notably cars), and spending on health, on leisure and on miscellaneous services. HHFCE is presented at both a domestic and a national level in the Quarterly national accounts.

Exports

Exports are the goods and services produced in the UK and purchased by residents of another country. Exports of tourism services are the provision of travel services in the UK to non-UK residents. In other words, it is foreign tourist spending in the UK.

Imports

Imports are the goods and services brought into the UK from another country. Imports of tourism services are consumption of travel services abroad by UK residents. In other words, it is the spending by UK tourists abroad.

Tourism

Tourism is defined by the activities of persons identified as visitors. A visitor is someone who is making a visit to a main destination outside their usual environment for less than a year for holidays, leisure and recreation, health, or education.

Tourism expenditure

Tourism expenditure refers to the amount paid by visitors for the acquisition of goods and services, as well as valuables, for and during tourism visits or trips. It includes expenditures by visitors themselves, as well as expenses that are paid for or reimbursed by others.

Any consumption of goods or services can be included. This may include standard products such as accommodation or food, but also other products such as valuables (for example, works of art), durable consumer goods (for example, computers), all food prepared and without preparation, all manufactured items whether locally produced or imported, all personal services and so on.

3 . Tourism in the UK National Accounts

Trade can be divided into trade in goods and trade in services. Tourism is a component of trade in services. The tourism balance within trade is calculated as exports of tourism services (provision of travel services in the UK to non-UK residents) minus imports of tourism services (consumption of services abroad by UK residents).

Figure 1: Treatment of tourism in trade in services

Source: Office for National Statistics

In the UK National Accounts, consumption by individuals can be proxied by household final consumption expenditure (HHFCE), which covers all purchases made by UK resident households (either in the UK or abroad). HHFCE is presented at both a domestic and a national level in the Quarterly national accounts (tables E1, E2, E3, and E4). The domestic measure of HHFCE (which is all spending in the UK by UK and non-UK residents) is converted to a national measure by adding the imports of travel services (spending by UK households not in the UK) less exports of travel services (spending in the UK by non-UK households).

Figure 2: Treatment of tourism in household expenditure

Source: Office for National Statistics

There are three approaches to measuring gross domestic product (GDP):

- production or output approach (GDP(O)), which is primarily concerned with the generation of value added; in simple terms, the value of all goods and services produced within the economy less production costs
- expenditure approach (GDP(E)), which is the sum of all final expenditures within the economy; in simple terms, it is all the expenditure on goods and services that are not used up or transformed in a productive process
- income approach (GDP(I)), which is the sum of all income generated by production activity

Tourism is a component of GDP(E) within household final consumption expenditure (HHFCE) and within trade. At the national account level, when tourism components are added up we get the following:

(resident UK spending in UK + tourism exports) – tourism exports + tourism imports + (tourism exports – tourism imports)

Where, (resident UK spending in UK + tourism exports) is the domestic measure of HHFCE, which is converted to a national measure by adding tourism imports and subtracting tourism exports, and (tourism exports – tourism imports) is the net trade component of tourism.

In fact, all the components of GDP(E) are produced at a national level and adding the trade balance, that is, exports minus imports, converts them back to a domestic level. In the end, at the GDP(E) level, we are left with the following:

resident UK spending in UK + tourism exports

In other words, GDP(E) equals:

Consumption + investment + government spending + net trade

Where net trade converts national level expenditure to domestic level.

Figure 3: Treatment of tourism in gross domestic product

Source: Office for National Statistics

In economic theory, a depreciation of sterling would cause exports to become cheaper and would push up import prices leading to an increase in GDP.

In terms of tourism, the depreciation of sterling would make travelling abroad more expensive for UK citizens, therefore we could see a reduction in the number of UK citizens travelling and/or amount of spending abroad. This scenario would affect tourism exports positively (more foreign tourists coming to the UK as it is cheaper), tourism imports negatively and household spending on tourism negatively (that is, less UK citizens travelling abroad). All else being equal, we would expect GDP to increase as a result. The opposite would be the case if sterling were to appreciate. This is a simplified explanation of the theory and real-world interactions may be more complex.

4 . Authors

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