



Llywodraeth Cymru  
Welsh Government

RESEARCH

# Evidence review of elasticities relevant to a visitor levy in Wales (Summary)

This report reviews the evidence on elasticities relevant to a visitor levy in Wales. Findings will help inform the potential design and implementation of such a levy.

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## Research aims

Alma Economics was commissioned by the Welsh Government to review the evidence on elasticities relevant to a visitor levy in Wales, with a view to informing the potential design and implementation of such a levy.

Elasticities seek to measure the responsiveness of one variable to a change in another variable; for example, the responsiveness of tourism demand to changes in the price of tourist accommodation. Elasticity parameters are expected to be key inputs for any modelling of the potential impact of a visitor levy.

## Methodology

This study used a Rapid Evidence Assessment approach to prioritise the most relevant and high-quality sources from across the evidence base for tourism elasticities, using a transparent and well-defined protocol and search strategy.

Through implementation of a search protocol, application of a set of inclusion/exclusion criteria (e.g., comparable jurisdictions, type of methodology, publication date), and a quality assessment framework, an initial database search of 777 studies was filtered down to a reading list of the 33 most relevant studies providing supporting evidence for the study's research questions of interest.

## Main findings

Whilst there was no evidence of elasticities relating to the Welsh tourist

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economy specifically, evidence was sourced for comparable tourist markets and key visitor source markets for Wales. Estimates from these studies varied depending on numerous factors, including (but not limited to) the data and method used, the measure for tourism demand, the destination, and the source location of visitors.

Many sources provided estimates of the responsiveness of tourism demand to changes in the price of tourism goods and services (the price elasticity of demand). These sources yielded a range of estimates, implying a high degree of uncertainty around the likely elasticity in the context of the Welsh visitor economy.

The average estimate of price elasticity of demand was found to be roughly unitary, implying that for every 1% increase (decrease) in prices there would be an equivalent 1% reduction (increase) in demand. The design of a visitor levy would need to factor in the potential for such a behavioural response from visitors should a levy design be expected to pass through to increased prices for goods and services consumed by visitors.

There was some evidence that the responsiveness of demand for tourism to changes in prices varies depending on the nature of the good or service considered. For example, there was some evidence that demand for tourist accommodation was slightly less responsive to changes in price than for other goods and services consumed by tourists (such as expenditure on shopping and leisure), although given the small number of studies supporting this conclusion (two) the results should be interpreted with caution.

Tourism demand was generally found to be positively correlated with visitor incomes; that is, an increase in visitor incomes was found to lead to an increase in demand for tourism goods and services. The size of the effect was found to vary across studies depending on a variety of factors.

There was some evidence within the literature of the interaction of demand

between different pairs of goods and services consumed by tourists, with goods found to substitute or complement each other depending on the pair of goods and services concerned. A small number of studies found that demand for accommodation is generally complementary to other forms of tourist expenditure (such as shopping and recreational expenditure).

## Evidence gaps

There was an absence of any high-quality evidence relating to the responsiveness of supply to changes in prices of tourism goods and services (the price elasticity of supply), although economic intuition would suggest supply is likely to be relatively unresponsive, particularly in the short run. The Welsh Government should consider the feasibility for commissioning robust empirical research to derive a reasonable estimate for this parameter (noting there may be potential data challenges).

In addition to the lack of evidence relating to Wales on a national or sub-national level, and evidence of the responsiveness of supply to changes in price, this study yielded several other evidence gaps.

There was no evidence which investigated the impact of a visitor levy specifically, with most studies focussing on the impact of changes in price more generally.

There was also little evidence addressing how the elasticities discussed might vary depending on the nature of the visitor; for example, if visitors with certain characteristics are more or less responsive to changes in the prices of tourism goods and services.

## Contact details

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Views expressed in this report are those of the researchers and not necessarily those of the Welsh Government.

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