Economic Impact Analysis

How much did the local economy grow?

Economic impact analysis is designed to answer the question: how much did the local economy grow in response to a particular event or investment? In this case, economic impact analysis would examine how much a local economy grows in response to a heritage tourism initiative. The following description and worksheet describes how to make such an impact estimate for the case of heritage tourism initiatives that attempt to increase the number of heritage visitors to a region. However, the basic framework also can be used for other potential heritage tourism initiatives, such as initiatives designed to lengthen the stay or current visitors.¹

Given its purpose, the first step in economic impact analysis is to think about what part of the economy is expected to grow. What will trigger growth in the economy? Many heritage tourism initiatives will attempt to attract more visitors to an area through additional or enhanced events and exhibits, or marketing efforts, to provide a few examples. Such efforts also may encourage local residents to be “a tourist in your home town.” In either case, the triggering economic event is the increase in the number of visitors. The next step is to trace out how the triggering event will grow the economy. The direct impact of increased visitors would be to increase purchases from businesses that serve tourists such as attractions, restaurants, stores, gasoline stations, and in the case of overnight visitors, lodging. Spending at attractions, restaurants, and lodging places would help support employment, profits, and paying the rent or mortgage at these local businesses. The situation is a bit more complicated in the case of retail stores and gasoline stations, since it is really only the mark-up portion of the sale price that keeps the business operating, since the wholesale value of retail items or gasoline goes to the manufacturer or refiner. Regardless, heritage visitor spending supports direct economic activity at businesses that serve tourists.

This direct impact at tourism businesses is the primary way that new visitors would grow the local economy. However, there is also a secondary, “multiplier” effect. The multiplier effect occurs as the spending at tourism businesses re-circulates within the local economy. How does this happen? It occurs for two basic reasons: 1) because most businesses have some local suppliers and 2) employees of businesses spend some of their paychecks locally. In the first case, when a tourism business expands and purchases more from local suppliers (accountants, repair services, lawn services), more sales occur at businesses throughout the economy. In the second case, employees of tourist businesses who live in the local community spend their paychecks at businesses of all kinds including grocery stores, restaurants, retail stores, health care providers, banks, insurance brokers, movie theatres, etc. Even employees who live in other

¹ In this case, simply place the current number of visitors in the treatment region in the first column of Part 3, and then report the change in spending per visitor (due to the initiative) in the second column of Part 3, and then proceed through the rest of the worksheet.
communities will spend some money locally. The multiplier impact calculates the additional economic activity due to both purchases from suppliers and employee spending. The multiplier impact is typically not as large as the direct impact, particularly in a smaller community where fewer suppliers will be based locally, and where more employees will live in other towns, or at least shop in other towns. On the other hand, the multiplier impact is interesting and important because it shows how businesses throughout the community benefit from the tourism initiative, beyond the direct impact on tourism businesses.

The economic impact analysis begins by assessing how tourist activity changed in response to the heritage tourism initiative. This is identified by examining how much tourism activity changed after the initiative relative to before the initiative. This can entail measuring the year-to-year growth in visitors to heritage tourism sites in the year before the heritage tourism initiative to the year (or years) of the initiative itself. In such analysis it is also critical to have a “control” community for the economic impact analysis. This is necessary because tourism activity will change from year to year for a variety of reasons. A new heritage tourism initiative will be one reason for a change but other factors also can be critical such as weather from year to year, or changes in the strength of the state or national economy (the onset of a recession, an economic boom, etc.). The control community can help isolate the impact of the heritage tourism initiative from these other factors. This is because the control community also will be impacted by the regional weather (appropriate control communities need to be located nearby), and by economic conditions at the state and national level. Differences in the year to year growth rate of your community (the community with the heritage tourism initiative) with the growth rate of the control community should show the impact of the heritage tourism initiative.

Selection of an appropriate control community (or communities) is naturally a critical issue in this economic impact analysis. The goal is to find a community of similar size, similar location within the state, a roughly equivalent heritage tourism sector (before the initiative) and a similar distance from metropolitan areas. It is important that the control community (or communities) is located close enough to be impacted by similar weather patterns.

Two examples of economic studies utilizing this treatment versus control approach are provided in McGarvey et al. (2006; especially see Table 1) and Golden et al. (2006; especially see Table 3). Economists sometimes call this treatment versus control approach the “Difference in Difference” approach.

**Four Steps to Economic Impact Analysis**

This review of economic impact analysis suggests four steps to conducting an economic impact analysis:

1) defining the relevant heritage tourist attractions where visitations are expected to rise,
2) estimating the number of new visitors to a community due to a tourism initiative,
3) determining the spending pattern of visitors and estimating the direct economic impact of spending, and
4) estimating the “multiplier” impact and the total economic impact (which is just the sum of the direct impact and multiplier impact).
1. **Defining the relevant heritage tourism attractions.** Economic impact analysis will require visitor data to determine the number of visitors to heritage tourism attractions. The first step is to define the impact region. Is the heritage tourism initiative likely to impact a single community or multiple communities? The geographic boundaries of the “treatment” region must be determined and entered into the Worksheet 2. A similar step must be taken for the control region (or regions).

2. **Visitor Impact.** The first step is to develop an inventory of all heritage tourism attractions in the treatment region. Or, if the heritage tourism initiative is only expected to impact some of these attractions, then it is necessary to list all the attractions that are likely to be impacted. The names of the relevant tourist attractions in the “treatment” region can be entered into Worksheet 2. A similar list also should be assembled for the control region and entered in Worksheet 2. The next step is to determine the number of visitors to all relevant attractions in the treatment and control region in the year before the heritage initiative and the year(s) of the initiative. This information also can be entered into Worksheet 2 and used to calculate before and after growth rates. The difference between the growth rates in the treatment minus the control region is the estimated percentage impact of the heritage tourism initiative on heritage visitors. If there are multiple control regions, averages should be entered into Worksheet 2.

3. **Visitor Spending Impact.** The percentage impact can be multiplied by the total estimated visitors in the treatment region in the year before the heritage tourism initiative. This will provide an estimate of the increase in the number of visitors. This increase in visitors can be multiplied by the average spending among visitors. Data on average visitor spending can be gathered through a survey of visitors. An example Survey of Heritage Visitors is provided in Appendix 4. The questions on the survey can be used to estimate average visitor spending as described in the footnote below. The evaluation team should plan to distribute the survey at a selected group of attractions for a series of at least 5 days. The 5 days should include both week days and weekend days. For each type of spending, the visitor impact is multiplied by the average spending in order to yield the increase in visitor spending in each category: a) food, b) retail, c) gasoline, d) entertainment e) lodging and f) other. For most of these categories, the spending impact is the equivalent to the direct economic impact. As noted earlier, for retail and gasoline purchases, only the “mark-up” portion of the price creates a local economic impact. Worksheet 2 provides a baseline mark-up percentage that might be used.

4. **Multiplier Impact and Total Economic Impact.** The direct economic impact can be multiplied by an economic multiplier to yield the total economic impact. An economic multiplier shows the additional economic impact at other local businesses for each dollar of direct impact at a heritage tourism business. Typical economic multipliers for a mid-size, non-metropolitan

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2 The first step is to determine which surveys were completed by out-of-town heritage visitors. This is determined based on the first two questions in the survey. Out of town, heritage visitors should have an out of town zip code, and must select “I came to the area to visit this and other heritage tourism sites” in response to Question 2. The average daily spending per out-of-town heritage site visit can be calculated by 1) summing the total spending in each category across all completed out of town, heritage visitor surveys, and 2) then dividing by the total number of heritage site visits. The number of heritage site visits for each survey form can be calculated by multiplying the total number of persons in the group by the number of heritage attractions visited by the group on that day. The number of heritage site visits can then be summed across all surveys from out-of-town heritage visitors.
region are included in Worksheet 2. In some cases, the Department of Economic Development or University Extension Service within a state may be able to calculate economic multipliers on a custom basis, and these multipliers can be substituted in Worksheet 2. Consultants also may be hired to develop economic multipliers. Total spending by category is added together to yield the grand total economic impact of the heritage tourism initiative, as seen in Worksheet 2.