

OXFORD ECONOMICS

The economic contribution of the UK hospitality industry



A report prepared by Oxford Economics
for the British Hospitality Association

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1 Introduction

1.1 Purpose of the study

This report, prepared by Oxford Economics, uses the latest datasets to provide an up-to-date and comprehensive assessment of the economic contribution of the hospitality industry to the UK economy. It provides an update on our previous three reports, which were produced in 2010, 2011 and 2013.¹

The aim of this study is to:

- assess the various economic contributions that the hospitality industry has made to the wider UK economy, primarily over the period 2010 to 2014; and
- provide scenario analysis of the potential future contribution of the hospitality industry under a range of different assumptions.

There have been a number of data revisions since the previous report was published. Headline employment and other economic figures have been revised to reflect this.

1.2 Definition of the hospitality industry

The hospitality industry includes enterprises that provide accommodation, meals and drinks in venues outside of the home. These services are provided to both UK residents and overseas visitors. This is the same definition as applied in the original 2010 study.

More formally, for the purposes of economic analysis, the hospitality industry has been defined using the same set of 2007 Standard Industrial Classification (SIC) groups as our previous studies. These groups are listed below.

The hospitality industry covers the provision of accommodation, meals and drinks in venues outside of the home

¹ Economic contribution of the UK Hospitality Industry, 2010; Local economic contribution of the UK hospitality industry, 2011; and Economic contribution of the UK hospitality industry, 2013.

Table 1.1 UK hospitality industry SIC definition

SIC 07 code	Description	Hospitality sub-sector
5510	Hotels and similar accommodation	Hotel & related
5520	Holiday and other short stay accommodation	Hotel & related
5530	Camping grounds, recreational vehicle parks and trailer parks	Hotel & related
5590	Other accommodation	Hotel & related
56101	Licensed restaurants	Restaurant & related
56102	Unlicensed restaurants and cafes	Restaurant & related
56103	Take away food shops and mobile food stands	Restaurant & related
56301	Licensed clubs	Restaurant & related
56302	Public houses and bars	Restaurant & related
5621	Event catering activities	Catering
5629	Other food service activities	Catering
	In-house catering in sectors outside the core hospitality industry (estimated using occupational data)	Catering
8230	Convention and trade show organizers	Event management
7810	Share of activities of employment placement agencies	All
7820	Share of temporary employment agency activities	All

As in previous studies, there are two important areas where SIC-based official data do not enable the hospitality industry to be fully measured. These are in-house catering in sectors outside the core hospitality industry and temporary / agency employment within the hospitality industry, primarily within the catering sector. In-house catering is therefore estimated using occupational data on the employment share of hospitality-related roles² in non-hospitality sectors. Temporary / agency employment across the hospitality industry is estimated using non-SIC sources, as well as SIC data on employee jobs in SIC 7810 (activities of employment placement agencies) and SIC 7820 (temporary agency activities).

1.3 Overlap between hospitality and tourism

While often grouped together as a single industry, the hospitality and tourism industries should be viewed as two individual, though overlapping, sectors.

The tourism industry can be defined as “the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and purposes other than being employed in the place visited”.³

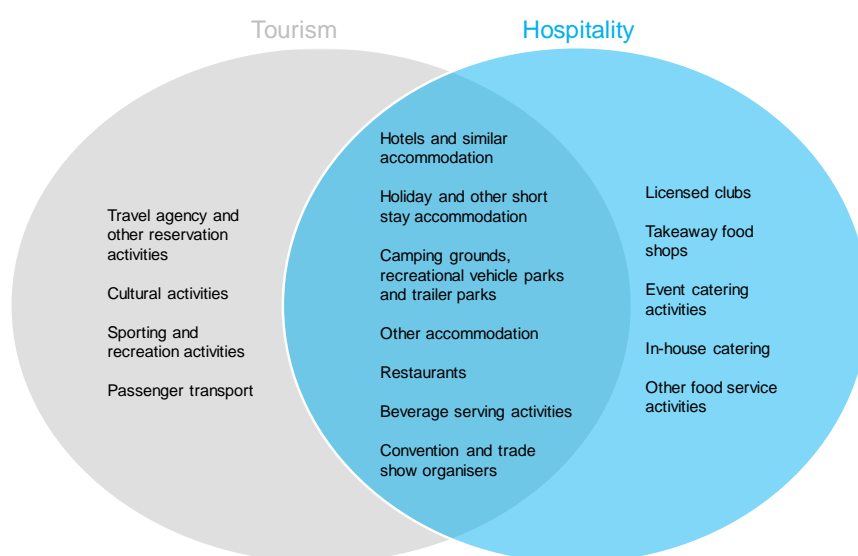
² Bar staff, waiter/waitresses, kitchen and catering assistants, chefs, restaurant and catering manager roles etc.

³ http://www.un.org/esa/sustdev/natlinfo/indicators/methodology_sheets/econ_development/tourism_contribution.pdf

As defined earlier, the hospitality industry covers the provision of accommodation, meals and drinks in venues outside of the home. These services are provided to both UK residents and overseas visitors.

Figure 1.1, below, illustrates the overlap and inter-related nature of the relationship between the tourism and hospitality industries. Definitions for both industries cover hotels, accommodation, restaurants and public houses. Activities specific to the hospitality industry include catering activities, licensed clubs and takeaway food shops. Activities specific to the tourism industry include travel agency activities, cultural activities, sporting and recreational activities, and passenger transport services.

Figure 1.1 Mapping of tourism and hospitality industries



1.4 Data revisions and updates to previous reports

There have been a number of data revisions since the publication of our previous report⁴. These have resulted in changes to the estimates of the employment and gross value added contributions of the hospitality industry to the UK economy. The following data sources have been updated:

- Business Register and Employment Survey (2013)
- Census of population (2011)
- Annual Survey of Hours and Earnings (2014)
- ONS input-output tables (2011)
- ONS supply and use tables (2012)

⁴ Economic contribution of the UK hospitality industry, 2013

- Annual Business Survey (2013)
- HM Revenue and Customs Alcohol Bulletin (2013/14);
- ONS effects of taxes and benefits on household income release (2012/13)
- Oxford Economics' Macro and Regional models (2014).

These data revisions mean that the numbers presented in previous reports have been revised to reflect the latest official data. Throughout the analysis we discuss how the industry's economic contribution has changed over the last four years using these revised data.

The base year for this report is 2014, although the latest data for most indicators relate to 2013. The 2014 estimates are based on 2013 financial and labour market data at a SIC 4-digit level and 2-digit SIC level labour market data for 2014.

1.5 The channels of economic impact

This report undertakes a standard economic impact analysis to identify the three core channels of impact that stem from the activities of the hospitality industry. These channels are:

- **Direct impacts** – employment and activity in the UK hospitality industry itself.
- **Indirect impacts** – employment and activity supported as a result of UK hospitality firms purchasing goods and services from UK suppliers. This includes, for example, jobs in the manufacture of food and beverages, agriculture, business services (such as advertising and market research), and communications.
- **Induced impacts** – employment and activity supported as employees within the hospitality industry and its direct supply chain spend a proportion of their wages on consumer goods and services. This stimulates economic activity in retail and leisure outlets and their domestic supply chains.

In accordance with standard economic impact assessments, the scale of the impact of the industry is measured using five key metrics:

- *Gross value added contribution to gross domestic product (GDP)* – measures the contribution to the economy of each individual producer, industry or sector. It is a measure of output and is aggregated across all industries or firms to form the basis of a country's GDP, the main measure of the total level of economic activity⁵;
- *Employment* – in the hospitality sector, including temporary or seasonal employment.

The study assesses the economic impact of the UK hospitality industry across three channels: direct, indirect and induced

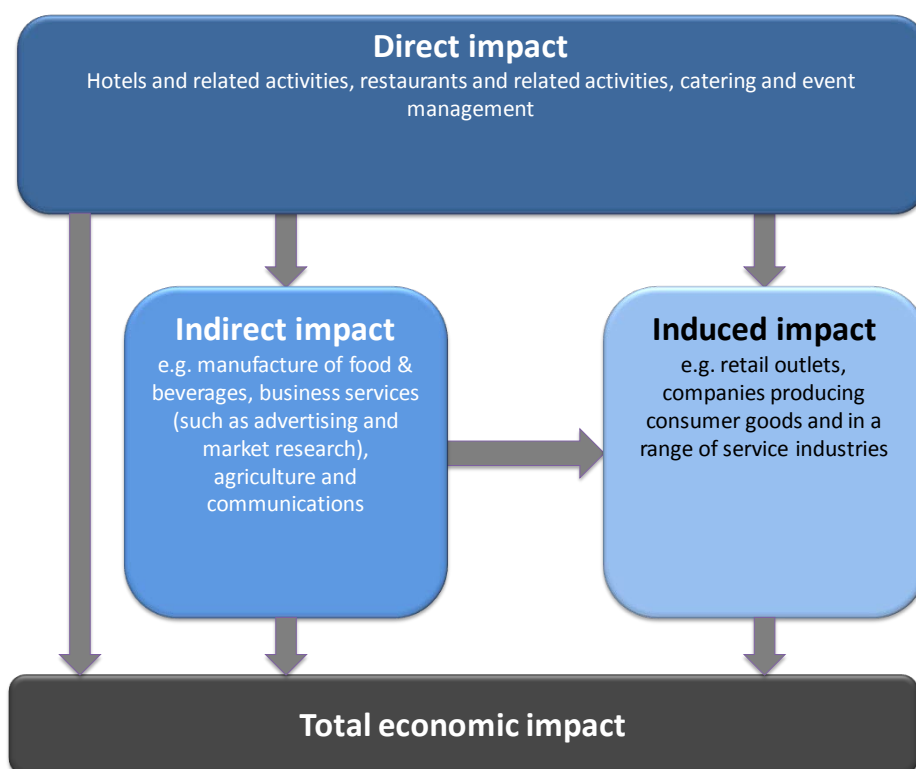
⁵ Gross value added is commonly calculated as the value of the output created by an industry less the cost of purchased inputs used in its production (known as the 'output approach' to national accounting).

- *Taxation* – covering tax revenue streams generated for the UK exchequer.
- *Exports / In-bound spending* – the amount overseas’ visitor spend on hospitality goods and services.
- *Investment* - capital spending by the hospitality industry including, for example, construction spend on new hotels and the purchase of items such as new furniture and equipment for hospitality venues.

In examining the industry’s contribution to employment and GDP we consider both regional differences and the industry’s size relative to that of other industries, particularly focusing on the creative and digital industry.

Our calculations of these impacts are on a gross basis. They therefore make no allowance for what the people and other resources deployed by the hospitality industry (and its associated activities) would have contributed to the economy if the hospitality industry did not exist.⁶

Figure 1.2 The economic impact of the hospitality industry



1.6 Report structure

The remainder of this report is structured as follows:

⁶ This is a standard procedure in the analysis of the economic impact of individual industries.

- Chapter 2 examines the direct contribution that the hospitality industry has made to the UK economy in terms of employment, gross value added, tax revenues, exports and investment.
- Chapter 3 assesses the indirect and induced contributions that the hospitality industry makes to the UK economy via supply-chain linkages and the consumer spending of persons directly and indirectly employed by the industry.
- Chapter 4 explores a range of potential future scenarios for the UK hospitality industry and estimates the industry's potential economic contribution under each scenario.

2 Direct contribution

Key points

- In 2014 employment in the UK hospitality industry stood at 2.9 million jobs, equivalent to 9 per cent of total UK employment.
- The hospitality industry accounted for 17 per cent of total UK net employment growth between 2010 and 2014. This means that hospitality made a substantial contribution to the UK's private sector jobs recovery.
- The hospitality industry is the UK's fourth biggest industry in employment terms. Business services is the largest and wholesale and retail and healthcare are the second and third.
- Both the digital and creative industry and the hospitality industry have been key players in the jobs recovery in the UK over the past four years. However, while the digital and creative industry has received government support in the form of tax relief from the UK Government, the hospitality industry and the tourism industry have not.
- Regionally, London and the South East have the largest shares of total UK hospitality employment, but the South West has the highest concentration of hospitality employment.
- The UK hospitality industry contributed an estimated £57 billion to UK GDP in 2014 (2011 prices). This equates to almost 4 per cent of total UK GDP.
- The UK hospitality industry is estimated to have contributed £41 billion to the Exchequer in 2014.
- It is estimated that the hospitality industry accounted for £10 billion of foreign exchange export earnings in 2014. This was 2 per cent of total export earnings (goods and services) in that year.
- On average, 1 per cent of total investment in the UK economy is made by the hospitality industry. In 2014, gross fixed capital investment (excluding depreciation) by the industry is estimated to have been £5 billion.

This chapter presents estimates of the direct economic contribution of the UK hospitality industry. This element of the analysis covers the initial economic activity generated by the provision of accommodation, meals and drinks in venues outside of the home within the UK. This activity is considered in terms of employment, the gross valued added contribution to GDP, tax revenues, exports and investment.

It also examines how the economic contribution of the industry has changed since our original report in 2010, and compares this report's employment estimate for 2014 with the projections set out in the 2010 report.

2.1 Employment

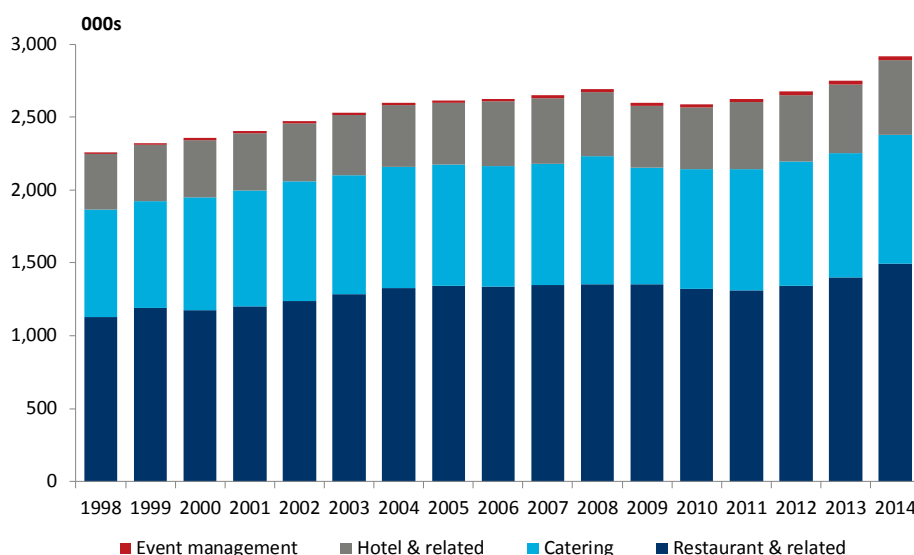
2.1.1 The direct employment contribution of the hospitality industry

In 2014 employment in the UK hospitality industry stood at 2.9 million jobs, representing 8.8 per cent of total UK employment.

Since our original publication in 2010⁷, the hospitality industry has experienced significant growth, with employment rising by more than 331,000 since 2010 (when the industry accounted for 8.3 per cent of total employment). Going back even further, the hospitality industry has generated over 663,000 jobs since 1998.

The UK hospitality industry is estimated to have directly employed 2.9 million people in 2014

Figure 2.1 UK direct hospitality employment – sub-sectors



Source: BRES, LFS, Oxford Economics

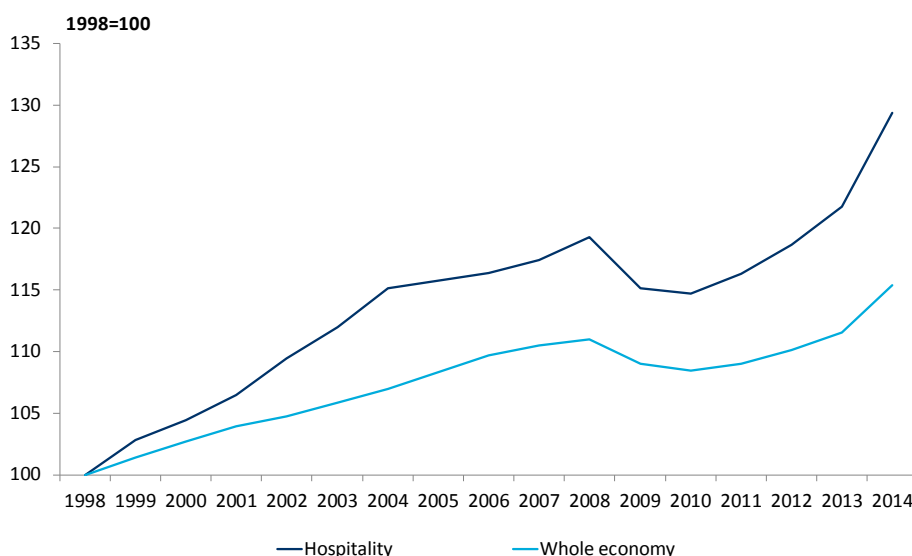
The growth outlined above means that the hospitality industry accounted for 17 per cent of net UK employment growth between 2010 and 2014, making a key contribution to the UK's private sector jobs recovery.⁸ By 2014, both hospitality and the economy as a whole are estimated to have recovered the jobs lost during the recession and now exceed their previous 2008 peak levels by 8 per cent and 4 per cent respectively.

The hospitality industry accounted for 17 per cent of total UK net employment growth during the period of 2010-2014

⁷ All historical figures have been revised from the previous report to take account of data revisions.

⁸ Our previous 2013 report stated, "The [hospitality] industry accounted for 27.7 per cent of total UK net jobs growth over 2010-2012." In this report, we have stated that the hospitality industry accounted for 17 per cent of total UK net employment growth during the period of 2010-2014. The hospitality industry's share of job creation has been diluted due to stronger job growth in sectors such as arts and recreation, transportation and education over the period 2012-2014 compared to 2010-2012.

Figure 2.2 Growth of direct hospitality and whole economy employment in the UK



Source: BRES, LFS, Oxford Economics

In the 2010 report, three scenarios were developed to consider the potential future contribution of the hospitality industry. These were:

- A trend baseline scenario, derived by extrapolating UK resident and overseas visitor performance and hospitality employment in line with average growth in the decade prior to the recession.
- A ‘Cameron 50:50’ scenario, based around the Prime Minister’s 2010 August speech and call for a 50:50 balance between UK resident visitor spend in the UK and overseas. It was assumed that this 50:50 target was reached by 2015 and maintained at this ratio thereafter to 2020.
- A ‘midway’ scenario with visitor assumptions between the trend baseline and the Cameron 50:50 scenario.

Employment in 2014 under each of these scenarios was forecast to be 2.6, 2.8 and 2.7 million, respectively. When we compare these forecasts to our current employment estimate for 2014 (2.9 million) we can see that job growth over 2010-2014 was noticeably higher than forecast across the scenarios in the previous report.

Both domestic and overseas tourism spend were stronger from 2010-2014 than previously forecast under all three scenarios. This helped to drive stronger-than-expected employment growth in the hospitality industry in those years. In addition, the latest data have demonstrated that although employment in hospitality fell following the onset of the recession in 2008, the total number of jobs lost was less severe than anticipated in our 2010 report.

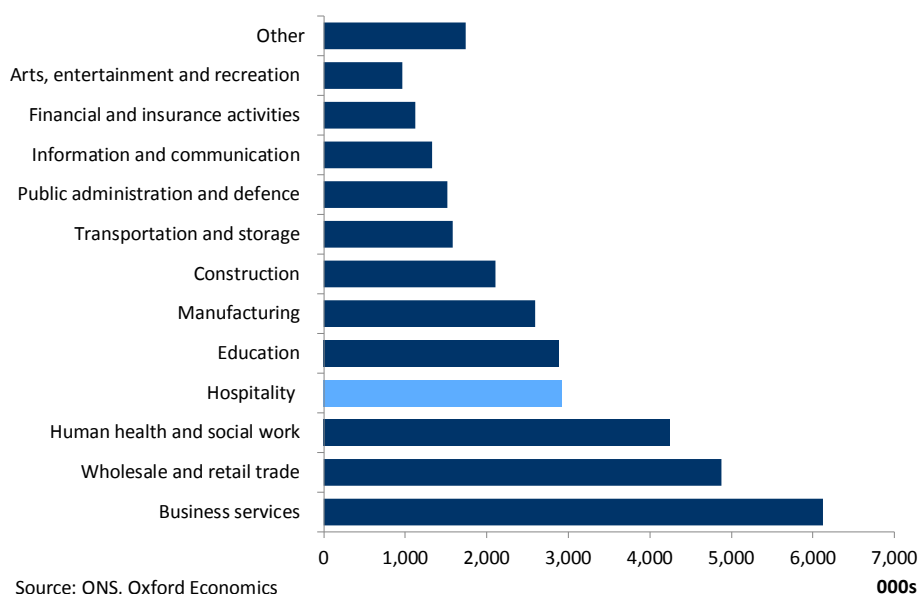
2.1.2 How hospitality compares to other industries

Based on Oxford Economics’ estimates and official data of employment by broad sector, the hospitality industry is the UK’s fourth biggest industry in

employment terms and accounts for 8.8 per cent of total employment. This places it ahead of industries such as education (8.7 per cent), manufacturing (7.8 per cent) and construction (6.3 per cent). This is a change from 2010, when hospitality was the UK's fifth biggest industry, behind education. However, it is important to note that, unlike the estimates for hospitality, the values shown for other sectors do not include temporary employment. If estimates of temporary employment were available for the other sectors, notably education, there might be an impact on the rankings presented.

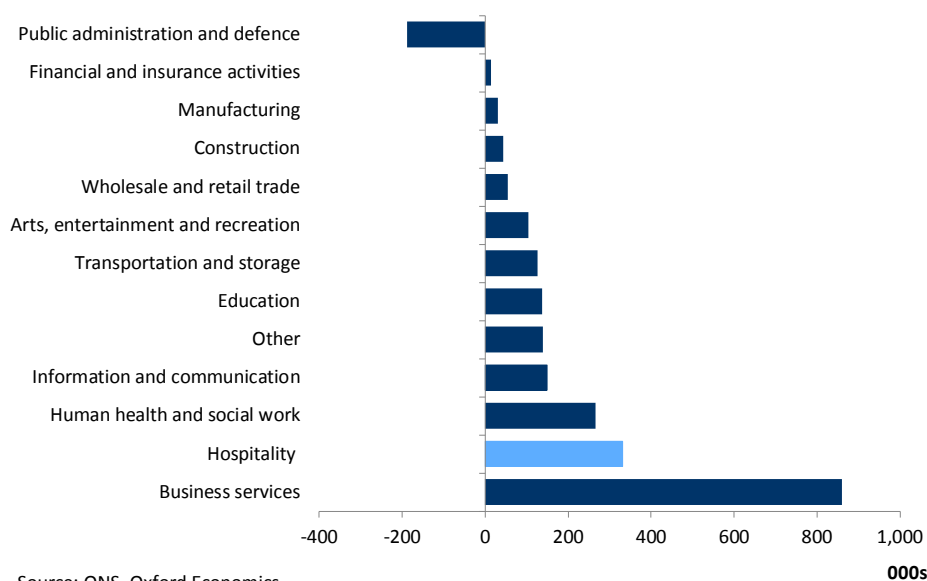
The hospitality industry is the UK's fourth biggest industry in employment terms

Figure 2.3 Industry comparison – UK employment 2014



Nevertheless, hospitality is clearly a significant source of employment for the UK economy and Oxford Economics' forecasts suggests that buoyant rates of growth are likely to continue in the years ahead.

Figure 2.4 UK employment growth 2010-2014, by industry



Despite the importance of the sector in terms of employment impact and growth that these figures demonstrate, a recent report by the Culture, Media and Sport Select Committee asserts the central role that the tourism industry (and by implication the hospitality industry) plays in the economic life of the UK is not given sufficient recognition and that “too often; Government fails to factor tourism into its wider decision-making”.⁹ The report highlights the positive impact that, for example, reductions in VAT and Air Passenger Duty could have on increasing visitor numbers and overnight stays in the UK, but states that the ‘Government will need to carefully study the full impact of any such change.’¹⁰

One industry that has received significant support from government policy in recent years is creative and digital. For example, this industry benefited from the government’s introduction of tax relief to animation, high-end television, video games and theatre during 2013 and 2014.

On that basis, it is interesting to benchmark employment growth in the hospitality industry against that of the creative and digital industry (Figure 2.5). In work with the UK Commission for Employment and Skills, Oxford Economics noted that that digital and creative activities are linked because the digital technology sub-industry provides the infrastructure and platforms through which creative content is often delivered. While the definition of the digital and creative industry has been subject to considerable debate in recent years, for this study we adopt the

⁹ House of Commons Culture, Media and Sport Committee. Tourism. Sixth Report of Session 2014–15. London: The Stationery Office Limited, 26 March 2015. Page 3

¹⁰ House of Commons Culture, Media and Sport Committee. Tourism. Sixth Report of Session 2014–15. London: The Stationery Office Limited, 26 March 2015. Page 3

definition used in the UKCES 2012 sector skills insight study (Table 2.1).¹¹ This definition of the digital and creative industry is based on the two-digit SIC codes, allowing the use of Oxford Economics' regional model to construct a data set comparable to this study's estimate for direct hospitality employment.

Table 2.1 Definition of digital and creative industry

Digital Industry	
SIC07 code	Description
61	Telecommunications
62	Computer programming, consultancy and related activities
63	Information service activities
95	Repair of computers and other goods
Creative Industry	
SIC07 code	Description
58	Publishing
59	Motion pictures and music
60	Programming and broadcasting
73	Advertising and market research
74	Other professional scientific and technical activities (includes design, photographic, translation)
90	Creative arts and entertainment
91	Libraries, archives, museums

The digital and creative industry is estimated to have supported 2.3 million jobs in 2014, compared to 2.9 million supported by the hospitality industry. From 2010 to 2014 the digital and creative industry is estimated to have created 284,000 net additional jobs in the UK economy. This equates to 14 per cent of all jobs created in the UK over the past four years compared to the 17 per cent of jobs created by the hospitality industry.

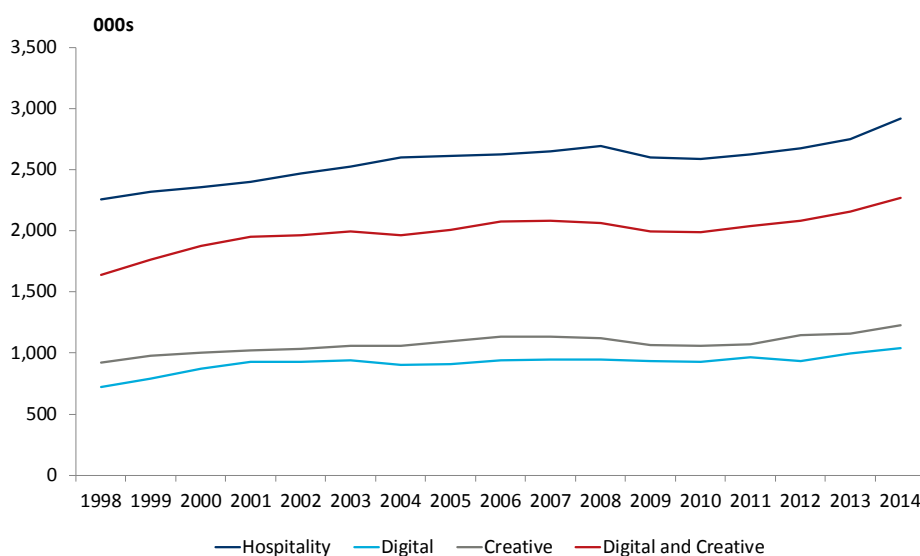
Clearly, both the digital and creative industry and the hospitality industry have been key players in the jobs recovery in the UK over the past four years. However, where the digital and creative industry has received strong support in the form of tax relief from the UK Government, the hospitality and tourism industries have not.¹²

¹¹

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/304485/Sector_Skills_Insights_Digital_and_Creative_evidence_report_49.pdf

¹² There is considerable overlap between the tourism and hospitality industry

Figure 2.5 Hospitality and digital and creative industries employment in the UK



Source: ABI, LFS, Oxford Economics

2.1.3 Sub-sector analysis

Table 2.2 details the size, in terms of employment, of the different elements of the UK hospitality industry. In 2014, there were an estimated 512,000 jobs in hotels & related services; 1.5 million jobs in restaurant & related services; 887,000 contract catering and in-house catering jobs; and 28,000 jobs in event management. All of these figures include an estimate of temporary agency employment.

The growth in the UK hospitality employment by 331,000 net jobs between 2010 and 2014 mainly reflects:

- 158,000 net additional jobs in licensed and unlicensed restaurants and cafes;
- 106,000 net additional jobs in other food service activities;
- 65,000 net additional jobs in hotels & similar accommodation;
- 46,000 net additional jobs in takeaway food shops; and
- 36,000 net additional jobs in-house catering.

Offsetting these job increases has been the noticeable decline over the same period in event catering (93,000 jobs), public houses & bars (21,000 jobs) and licensed clubs (19,000 jobs) activities. These job reductions reflect long term trends over the period of 1998 – 2014.

Table 2.2 UK direct hospitality employment – sub-sectors

	2010 (000s)	2014 (000s)	2010 % total	2014 % total	Net change 2010 – 14 (000s)
Hotel & related	420	512	16%	18%	92
Hotels and similar accommodation	318	382	12%	13%	65
Holiday and other short stay accommodation	46	59	2%	2%	13
Camping grounds, recreational vehicle parks and trailer parks	33	42	1%	1%	9
Other accommodation	8	9	0%	0%	2
Temporary employment (estimate)	16	20	1%	1%	4
Restaurant & related	1,320	1,493	51%	51%	173
Licensed and unlicensed restaurants & cafes	573	731	22%	25%	158
Takeaway food shops	153	199	6%	7%	46
Licensed clubs	111	93	4%	3%	-19
Public houses and bars	432	411	17%	14%	-21
Temporary employment (estimate)	51	60	2%	2%	8
Catering	825	887	32%	30%	62
Event catering activities	232	139	9%	5%	-93
Other food service activities	23	129	1%	4%	106
In-house catering	470	505	18%	17%	36
Temporary employment (estimate)	100	113	4%	4%	13
Event management	23	28	1%	1%	4
Convention and trade show organizers	22	27	1%	1%	4
Temporary employment (estimate)	1	1	0%	0%	0
Hospitality total	2,588	2,919	100%	100%	331

2.1.4 Regional analysis

Regionally, London and the South East have the largest shares of UK hospitality employment. This is as expected given that these two regions are the largest in terms of their economy and population size, and London's role as a global visitor centre.

Table 2.3 illustrates how the hospitality industry makes an important contribution to employment across all regional economies with its share of total regional employment ranging from 7 per cent in Northern Ireland to 10 per cent in the South West. This consistently ranks the hospitality industry between 4th and 6th place across all regions in terms of industry size.

Regionally, London and the South East have the largest shares of total UK hospitality employment

Table 2.3 Regional direct hospitality employment, 2014

	Total jobs (000s)	% of total UK hospitality employment	% of total regional employment	Regional industry rank amongst the 17 broad sectors
North East	102	3%	8.6%	5
North West	300	10%	8.1%	5
Yorkshire & Humber	198	7%	7.6%	6
East Midlands	190	6%	8.3%	6
West Midlands	216	7%	7.7%	6
East	247	8%	8.1%	5
London	517	18%	9.1%	4
South East	419	14%	8.8%	5
South West	288	10%	10.0%	4
Wales	124	4%	8.5%	6
Scotland	256	9%	9.2%	4
N.Ireland	64	2%	7.4%	6
UK	2,919	100%	8.6%	4

2.2 GVA and productivity

2.2.1 Overall performance

The contribution that any business or industry makes to a country's economic output is measured by its gross value added contribution to gross domestic product (GDP).¹³

We estimate that the UK hospitality industry contributed an estimated £57 billion to UK GDP in 2014 (in 2011 prices), equating to 3.9 per cent of the total UK GDP. Using ONS Annual Business Survey (ABS) ratios of gross value added to turnover, total turnover generated by the hospitality industry is estimated to have been £118 billion in 2014.

Table 2.4 shows the composition of UK hospitality industry's gross value added and turnover contributions. Overall, the gross value added contribution of the hospitality industry to the UK economy is around half of the employment contribution due to lower average productivity levels. This is reflected in the average wages in the sector which, at approximately £210 a week, are half the UK average.¹⁴ The high percentage of part-time employment within the hospitality industry is another contributor to below-average productivity.

The UK hospitality industry contributed £57 billion to UK GDP in 2014, which equates to 3.9 per cent of the total UK GDP.

¹³ GDP is the main 'summary indicator' of economic activity and is used by economists to determine the rate of growth of the economy. Gross value added (GVA) is commonly calculated as the value of output created by an industry less the cost of purchased inputs (this is known as the 'output approach' to national accounting). GDP is calculated as the sum of GVA across all industries (plus taxes less subsidies).

¹⁴ Using Annual Survey of Hours and Earnings (ASHE) data from ONS, refers to average median weekly wages.

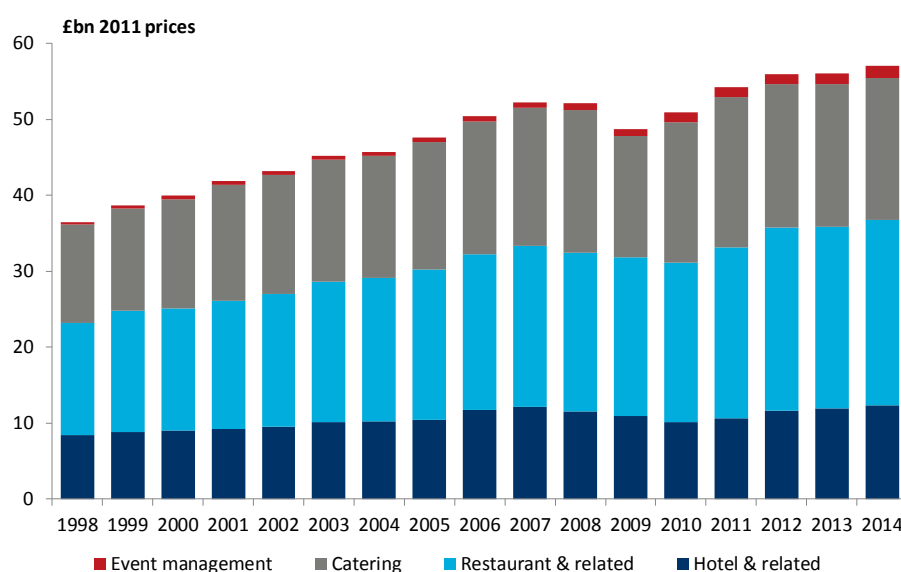
Table 2.4 UK direct hospitality GVA and productivity, 2014

	Employment (000s)	GVA (£bn 2011 prices)	Productivity (2011 prices)	Turnover (£bn)
Hotel & related	512	12	24,200	24
Restaurant & related	1,493	24	16,400	57
Catering	887	19	21,100	33
Event management	28	2	57,600	4
Hospitality total	2,919	57	£19,500	118
Whole economy	33,351	1,459	£43,700	-
Hospitality % whole economy	8.8%	3.9%	-	-

Source: ABI, LFS, ONS, Oxford Economics

The gross value added contribution of the hospitality industry has grown by 12 per cent (£6 billion) since 2010.¹⁵ Although this rate of growth was faster than the economy as whole (8 per cent), the hospitality industry only contributed six per cent of total UK GDP growth during the period of 2010-2014. The weaker contribution to growth in terms of GDP than in terms of employment reflects that the hospitality industry has tended to increase its levels of activity by taking on new workers, rather than through productivity gains.

Figure 2.6 UK: Direct hospitality GVA – sub sectors



Source: ONS, Oxford Economics

2.2.2 Industry comparison

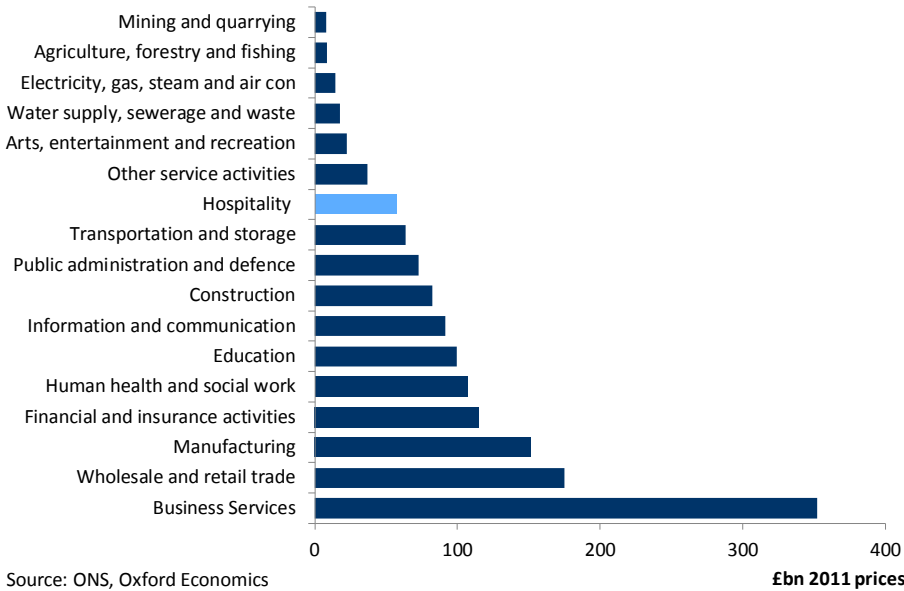
Although the hospitality industry was one of the UK's biggest employers in 2014, its relative contribution to GDP was much lower – hospitality was ranked 11th out of the 17 broad sectors in terms of gross value added contribution to GDP. As

¹⁵ The 2010 and 2013 reports estimated GVA in 2005 and 2009 prices, respectively. These figures are therefore not directly comparable with the figures presented in this report.

noted above, this reflects relatively low levels of productivity in many areas of the hospitality industry.

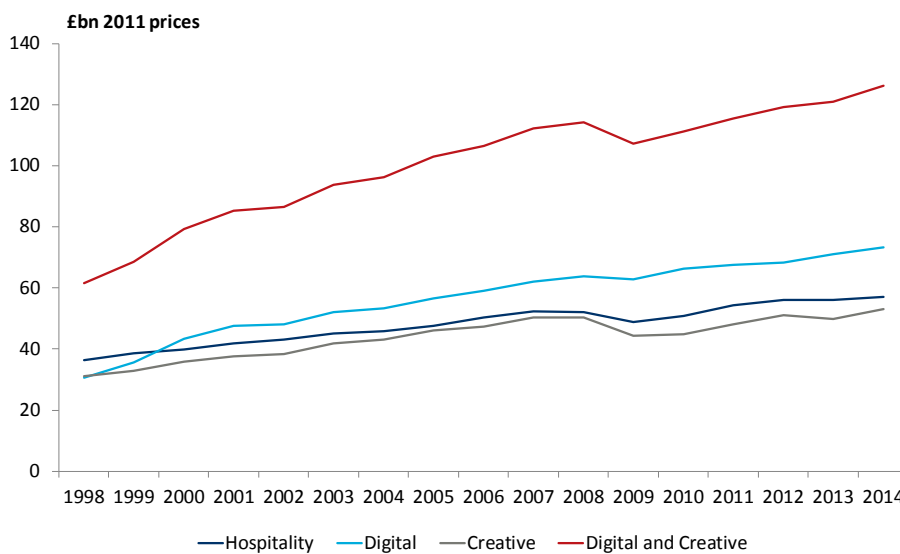
In 2014, the hospitality industry was not a major contributor to UK GDP, ranked 11th out of the 17 broad sectors in terms of gross value added contribution to GDP.

Figure 2.7 Industry comparison - UK GVA



While the hospitality industry supported more jobs than the digital and creative industry in 2014, the creative and digital industry's contribution to GDP was more than twice that of the hospitality industry. This reflects that average productivity in the creative and digital industry is almost 3 times that of the hospitality industry.

Figure 2.8 Hospitality and digital and creative industries' GVA in the UK



2.2.3 Regional analysis

The level of gross value added generated by the hospitality industry has been estimated across the UK regions by applying regional productivity rates to the estimated employment levels. Overall the regional share of the hospitality industry's total contribution to UK GDP is, as would be expected, very similar to the employment results with London and the South East generating the most value added amongst the 12 regions.

The gross value added contribution of the hospitality industry ranges between three and four per cent of total regional gross value added. This means that, out of the 17 broad sectors, the hospitality industry ranks between 8th and 11th in terms of the contribution it makes regional GDP. Relative to the size of regional output, the hospitality industry plays the most important role in the regional economies of London and Wales.

Table 2.5 Regional direct hospitality GVA, 2014

	Total GVA (£m 2011 prices)	% of total UK hospitality GVA	% of total regional GVA	Regional industry rank amongst the 17 broad sectors
North East	1,614	3%	4%	10
North West	5,204	9%	4%	11
Yorkshire & Humber	3,353	6%	3%	10
East Midlands	3,163	6%	4%	9
West Midlands	4,275	7%	4%	11
East	4,597	8%	4%	11
London	13,970	24%	4%	8
South East	8,135	14%	4%	11
South West	4,951	9%	4%	9
Wales	2,200	4%	4%	8
Scotland	4,599	8%	4%	11
N.Ireland	1,034	2%	3%	10
UK	57,095	100%	4%	11

2.3 Gross tax revenue

The UK hospitality industry is estimated to have contributed, in gross terms (i.e. gross of tax relief and other fiscal support), £41 billion to the Exchequer in 2014. Over half of tax revenues raised by the Exchequer in the industry are estimated to arise from VAT sales. Most of the remainder of tax revenue is from income tax, national insurance contributions and indirect tax contributions from those directly employed by the industry, excise duty and corporation tax.¹⁶

The UK hospitality industry is estimated to have contributed £41 billion to the Exchequer in 2014

¹⁶ VAT on sales is calculated by converting the GVA contribution of the hospitality industry into a turnover contribution (using ABS sub-sector ratios of GVA to turnover), adjusting this amount by a factor of 0.89 (to account for the estimated 11% of hospitality turnover which is non-VATable as this turnover originates from firms below the VAT threshold) and multiplying by the VAT rate of 20%. Given the Exchequer contribution estimates here are gross as opposed to net, we do not adjust gross turnover for the estimated 14% of turnover which is VAT reclaimable.

The overall level of tax revenue was £7 billion higher in 2014 than in 2010, equating to a 21 per cent increase revenues received by the Exchequer. This increase was largely driven by a higher level of employment-related tax revenues in the industry.

Table 2.6 Exchequer tax revenue generated by the hospitality industry, 2014

	Tax revenue (£bn)	% total
VAT on sales	21	51%
Excise duty	4	9%
Corporation tax	5	12%
Income tax and NIC	6	13%
Indirect taxes from direct employee spending	5	12%
Other tax	1	2%
Hospitality total	41	100%

2.4 Exports / in-bound spending

Based on estimates of exports and spending by in-bound tourists, it is estimated that the hospitality industry accounted for £10 billion of foreign exchange export earnings in 2014, which is 2 per cent of total UK export earnings (goods and services) in that year.¹⁷

Total overseas visitor spending in 2014 in the UK, which excludes expenditure associated with international students, is estimated at £22 billion. Spending on hospitality goods and services is therefore estimated to account for approximately 46 per cent of this. The remainder of overseas visitor spend reflects expenditure on non-hospitality products and services such as visitor attractions and events, retail and transport.

2.5 Investment

In 2014, gross fixed capital investment (excluding depreciation) by the industry is estimated to have been £5 billion.¹⁸ Over the last 3 years, the industry is estimated to have contributed an average of 1 per cent of all investment in the UK economy.

The term 'gross fixed capital investment' is a national accounts definition. As well as construction spend on new hotels, it includes investment spend on items such as new furniture and equipment for hospitality venues.

¹⁷ Using Oxford Economics UK macro model indicator for total exports of goods and services.

¹⁸ This is based on input-output metrics on the hospitality industry's investment spend as a share of total output. In theory, it would also be possible to estimate investment on a bottom-up basis by adding the value of new venue builds and so on, but in practice it is unlikely to be feasible to develop robust estimates on that basis.

Investment spending is estimated to have sustained 43,000 jobs in 2014 across industries such as construction, furniture manufacturing, equipment manufacturing, and IT services. These jobs are in addition to the 2.9 million direct hospitality jobs estimated above, and the indirect and induced jobs detailed in the next chapter.¹⁹

¹⁹ The jobs sustained by investment spending are not included in the total contribution calculation presented in the next chapter.

3 Multiplier effects and total contribution

Key points

- Indirect impacts are the employment and activity supported as a result of UK hospitality firms purchasing goods and services from UK suppliers.
- Induced impacts are employment and activity supported as employees within the hospitality industry and its direct supply chain spend a proportion of their wages on consumer goods and services.
- Based on input-output tables for the UK, it is estimated that the indirect gross value added contribution to UK GDP of the hospitality industry in 2014 was £37 billion.
- The total induced gross value added contribution to UK GDP of the hospitality industry is estimated to have been £49 billion in 2014.
- The indirect employment contribution of the hospitality industry is estimated to have been equivalent to around 755,000 jobs across the UK in 2014. The induced impact is estimated to have been 941,000 jobs.
- Adding together the direct, indirect and induced impacts described above gives the total economic contribution of the hospitality industry. The total gross value added contribution to GDP from the hospitality industry is estimated to have been £143 billion in 2014. This is equivalent to 10 per cent of UK GDP.
- The hospitality industry is estimated to have supported a total of 4.6 million jobs in 2014 either through its own activities, its supply chain or the induced expenditure of its employees and those in its supply chain. This equates to 14 per cent of total employment in the UK.

3.1 Introduction

In addition to the direct impact of the hospitality industry to the UK economy, there are indirect impacts on employment and GVA through the supply chain of the hospitality industry. There are also induced impacts which arise as those directly and indirectly employed in the hospitality industry use their earnings to buy other goods and services. These impacts along with the direct impacts combine to form the total impact.

3.2 Indirect and induced impact on GDP

The indirect, or supply chain, impacts of the hospitality industry are estimated using input-output tables which map the inputs required by firms in an industry to produce a unit of output. To illustrate this concept consider the following simple example: to provide restaurant services that generate £5 million in turnover, a restaurant may need to purchase food products for £1 million, pay occupancy

The supply chain multiplier impact of the hospitality industry in 2014 is estimated to have been £37 billion. This is estimated to have supported 755,000 jobs

expenses for £1 million and administrative costs for £0.5 million. In this example a restaurant has generated £2.5 million of gross value added (the value of its output less the value of inputs) and £2.5 million in turnover for other firms in the supply chain.

Based on input-output tables for the UK, it is estimated that the indirect gross value added contribution to UK GDP of hospitality industry in 2014 was £37 billion.

Induced impacts result from the spending of workers employed in the hospitality industry and its direct supply chain. The induced impact is again estimated using the input-output tables, which provide ratios to estimate the value of wages generated by a given level of economic activity. From there it is possible to estimate consumer expenditure and the induced contribution to GDP associated with that expenditure. The total induced gross value added contribution to UK GDP of the hospitality industry is estimated to have been £49 billion in 2014.

Since a proportion of the hospitality industry's supply chain purchases are made from other hospitality industry firms, and employees of the hospitality industry spend some of their earnings within the industry, when estimating multiplier impacts there is a risk of double counting the same hospitality activity in both the direct and multiplier contributions. To avoid this, estimated indirect and induced activity in the hospitality industry is excluded from the analysis.

The 'induced' impact of wage-financed spending by those employed in the hospitality industry or in its supply chain was £49 billion in 2015

3.3 Indirect and induced impact on employment

Once the indirect and induced impacts have been estimated in gross value added terms, productivity data can be used to estimate the number of jobs created in the supply chain and in industries where direct and indirect employees spend their wages. In total, the indirect employment contribution of the hospitality industry is estimated to have been equivalent to around 755,000 jobs across the UK in 2014. The induced impact is estimated to have been 941,000 jobs.

The estimated breakdown of the jobs supported through the supply chain is presented below. Clearly, the hospitality industry is helping sustain jobs across many sectors of the economy through its supply chain impact. A quarter of these jobs are in two sectors –the manufacture of food products and crop and animal production. There are also strong links between hospitality and a range of business and administrative services.

Table 3.1 UK hospitality – indirect employment, 2014

	000s	% of total
Manufacturing of food products	116	15%
Crop and animal production, hunting and related service activities	78	10%
Manufacture of beverages	45	6%
Wholesale trade, except of motor vehicles and motorcycles	42	5%
Construction	39	5%
Employment activities	31	4%
Land transport and transport via pipelines	27	4%
Legal and accounting activities	27	3%
Travel agency, tour operator and other reservation service and related activities	26	3%
Advertising and market research	23	3%
Activities of head offices; management consultancy activities	22	3%
Services to buildings and landscape activities	22	3%
Computer programming, consultancy and related activities	22	3%
Financial service activities, except insurance and pension funding	20	3%
Architectural and engineering activities; technical testing and analysis	20	3%
Warehousing and support activities for transportation	18	2%
Wholesale and retail trade and repair of motor vehicles and motorcycles	17	2%
Postal and courier activities	15	2%
Electricity, gas, steam and air conditioning supply	14	2%
Telecommunications	12	2%
Office administrative, office support and other business support activities	12	2%
Other	128	17%
Total	775	100%

3.4 Total economic impact of the hospitality industry

Adding together the direct, indirect and induced impacts described above gives the total economic contribution of the hospitality industry. The total gross value added contribution to GDP from the hospitality industry is estimated to have been £143 billion in 2014. This is equivalent to ten per cent of UK GDP.

For every £1 million the hospitality industry contributes to GDP itself, it creates another £1.5 million elsewhere in the UK economy. This means that that industry's GDP multiplier is 2.5.²⁰

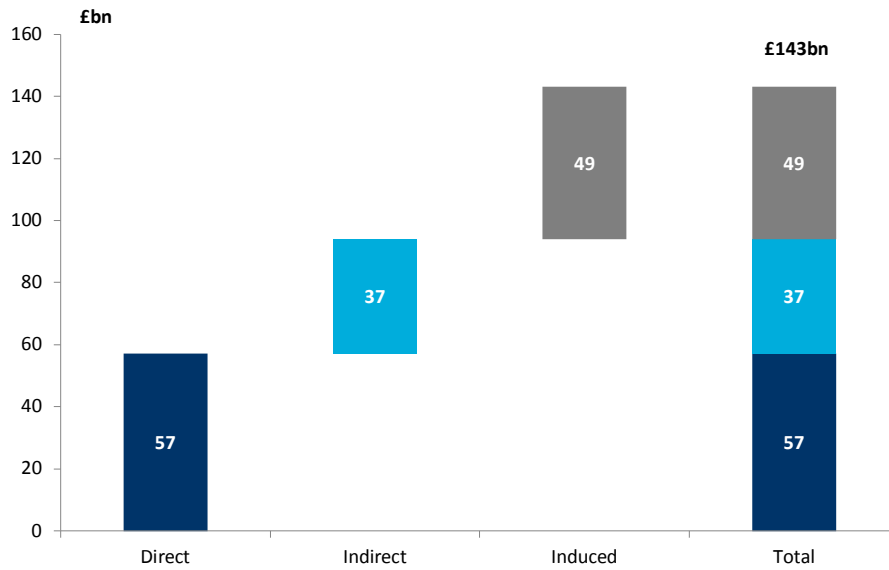
Following a similar approach, the hospitality industry is estimated to have supported a total of 4.6 million jobs in 2014, through either its own activities, supply-chain spending, or the induced expenditure of employees and those in its supply chain. This equates to 14 per cent of total employment in the UK.

For every ten direct jobs the industry creates another six are created elsewhere in the UK economy. This means the hospitality industry's employment multiplier is 1.6.

The total GDP contribution of the hospitality industry in 2015 is estimated to have been £143 billion. The industry also supported employment for an estimated 4.6 million people

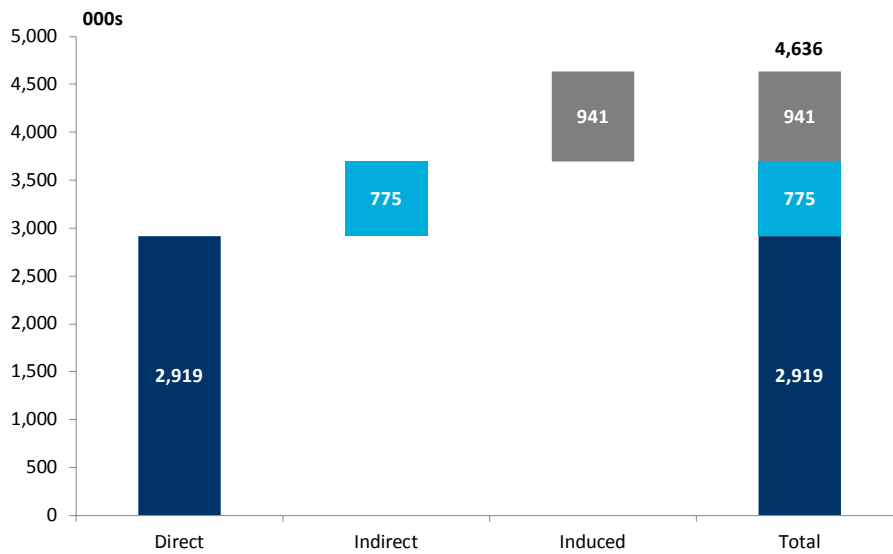
²⁰ The multiplier is calculated as: (Direct GDP + Indirect GDP + Induced GDP) / Direct GDP

Figure 3.1 The total GVA impact of the hospitality industry, 2014



Source: Oxford Economics

Figure 3.2 The total employment impact of the hospitality industry, 2014



Source: Oxford Economics

4 Future scenario contributions

Key points

- This section of the study assesses the potential economic contribution of the hospitality industry over the next half-decade under alternative hypothetical scenarios in which proactive and supportive government intervention leads to stronger visitor growth than would otherwise have occurred.
- Under our baseline scenario, the hospitality industry is forecast to grow to 3.31 million direct jobs by 2020 (388,000 net additional jobs compared to 2014).
- Under a high scenario, the hospitality industry is forecast to grow to 3.44 million direct jobs by 2020 (524,000 net additional jobs compared to 2014 and 136,000 more than in the trend baseline scenario).
- In a midway scenario, the contribution of the UK direct hospitality industry rises to 3.37 million jobs by 2020 (454,100 net additional jobs compared to 2014 and 65,000 more than in the baseline scenario).

This final chapter assesses the effect that variations in the number of domestic resident (overnight) and overseas visitors to the UK could have on the future employment contribution of the hospitality industry. The three scenarios are considered:

- **A baseline scenario:** visitor forecasts under this scenario grow in line Oxford Economics' suite of tourism models. These models are consistent with our macro and industry outlooks and factor in trends in consumer demand in the UK and overseas markets, as well as exchange rates. Under this scenario, it is forecast that by 2020 the UK receives 44.2 million overseas visitors a year and UK resident visitors grow to 170 million.
- **A high scenario:** based on the number of overseas visitors coming to the UK, and UK residents staying in the UK, being 20 per cent higher by 2020 than is forecast under the baseline scenario.
- **A mid-way scenario:** visitor assumptions are mid-way between the baseline scenario and the high scenario.

4.1 Baseline scenario

In this scenario, it is assumed that visitor numbers grow in line with Oxford Economics' suite of tourism models, which are consistent with our macro and industry outlooks. Therefore, the baseline scenario forecast takes into account the wider UK and global macroeconomic outlook and Oxford Economics' baseline forecasts for inbound visitor spending.

Under the baseline scenario, the hospitality industry is forecast to grow to 3.31 million direct jobs by 2020

Our baseline scenario forecasts exceed Visit Britain's growth strategy target that by 2020 the UK will receive 40 million overseas visitors a year.²¹ We believe that this target is on course to being exceeded, not least because the latest published data suggest that a significant portion of Visit Britain's target has already been realised. The base year for this target was 2011, when visitors (including day and cruise visits) numbered 30.7 million. By 2014, total visitor arrivals had reached 36.1 million - 58 per cent of the required increase in overseas visitors to meet the target, with six years yet to run.

If this rate of growth (which averages 5 per cent per annum) continues, the Visit Britain target should be comfortably achieved. To some extent, supply-side factors could restrict further growth, especially in terms of transportation access to the UK. However, the improvement in economic growth in key source markets, including the Eurozone, and the impact of the US dollar appreciation against the pound in the medium term are expected to drive growth.

Under the baseline scenario, the hospitality industry is forecast to grow to 3.31 million direct jobs by 2020 (388,000 net additional jobs compared to 2014). This hospitality employment growth would be balanced across the UK regions, given the natural spread of jobs across the economy, and will create employment opportunities across the skills spectrum, particularly for those seeking lower-skilled employment.

4.2 High scenario

This hypothetical scenario assumes the number of overseas visitors coming to, and UK residents staying in, the UK in 2020 is 20 per cent higher than under the baseline scenario. Overseas visitors therefore reach 53 million in 2020 and domestic visitors reach 204 million. This leads to a more marked increase in the level of activity and employment in the UK hospitality industry than under the baseline scenario.

This increase in visitor numbers could be driven by better-than-expected economic growth in key overseas visitor markets (such as the US and Eurozone), and within the UK itself. This would lead to stronger income and consumer spending growth in those countries, which raises the numbers and spending of overseas visitors coming to the UK and of domestic visitors staying in the UK.

Alternatively, stronger visitor numbers could result from the UK government implementing policy interventions that substantially increase the value for money (VfM) received by overseas and domestic holidaymakers in the UK, encouraging an increase in numbers. Examples of policy measures that could improve the price competitiveness of the hospitality and tourism industries in the UK include reductions in VAT, Air Passenger Duty and the cost of obtaining a UK visa.

Under the high scenario, the hospitality industry is forecast to grow to 3.44 million direct jobs by 2020

²¹VisitBritain. Delivering a Golden Legacy – A growth strategy for inbound tourism to Britain from 2012 to 2020. 2012.

While it is beyond the scope of this project to formally model the impact of these kinds of policy changes, they do provide a potential justification for exploring a hypothetical scenario under which visitor numbers are higher than expected.

Using input-output tables it is possible to trace how increased visitor spending, however realised, could impact the hospitality industry. Under the high scenario, the hospitality industry is forecast to grow to 3.44 million direct jobs by 2020 (524,000 net additional jobs compared to 2014 and 136,000 more than in the baseline scenario). These additional jobs would be spread across the hospitality economy, but would primarily be in the restaurant and accommodation sectors.

4.3 Mid-way scenario

The mid-way scenario incorporates higher growth than the baseline scenario but is less challenging than the high scenario. UK resident and overseas visitor numbers are assumed to be mid-way between the baseline scenario and the high scenario, i.e. UK resident and overseas visitor numbers are ten per cent higher than under the baseline scenario.

In the midway scenario, the direct contribution of the UK hospitality industry rises to 3.37 million jobs by 2020 (454,100 net additional jobs compared to 2014 and 65,000 more than in the baseline scenario).

Figure 4.1 Domestic (overnight) visitors in the UK



Source: ONS, Oxford Economics

Figure 4.2 Total overseas visitors to the UK

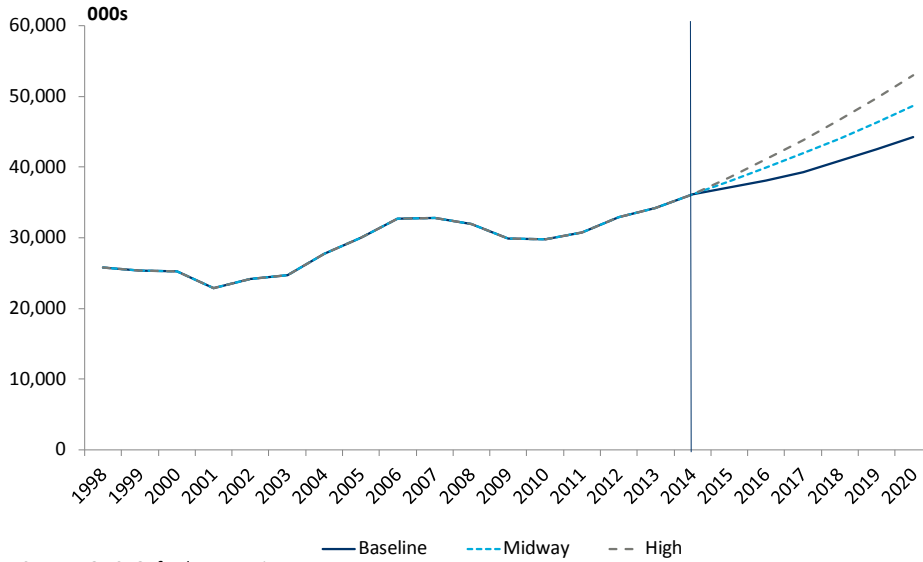
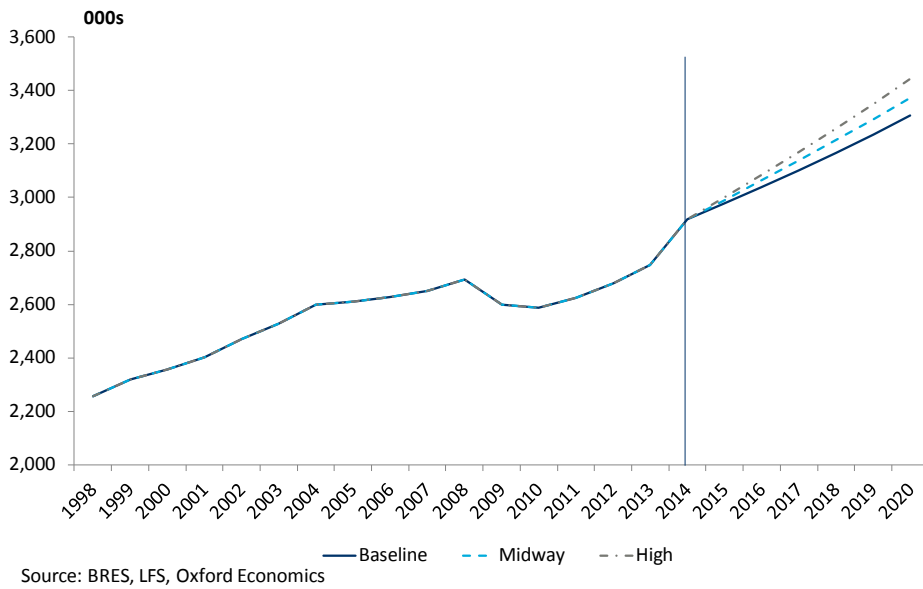


Figure 4.3 Employment forecasts for the UK hospitality industry under alternative scenarios



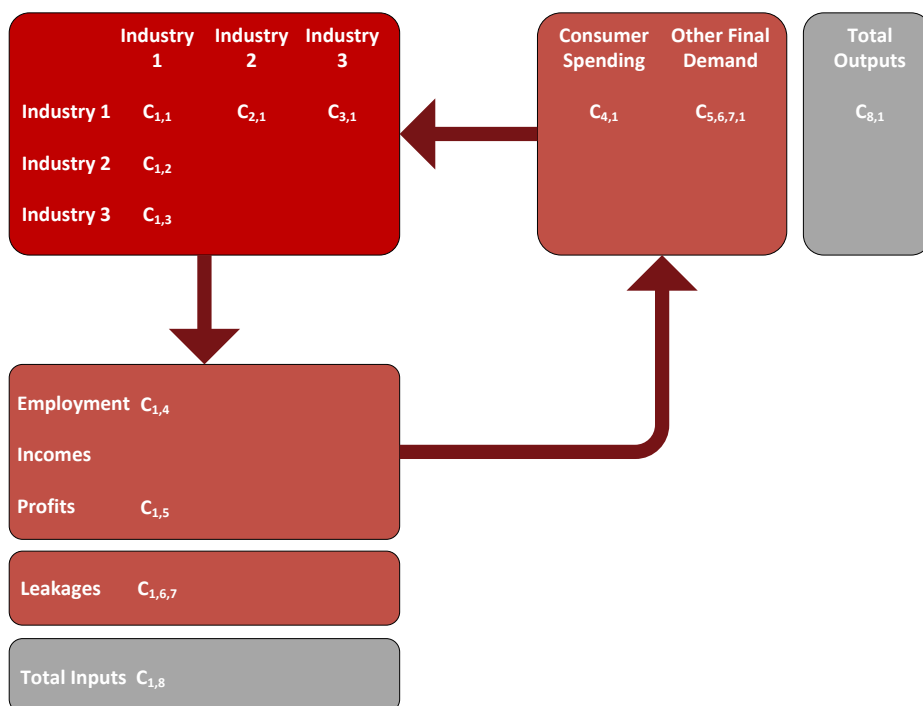
5 Appendix A: Economic impact methodology

Overview of input-output modelling approach for the UK

Input-output tables are designed to give a snapshot of an economy at a particular time, showing the major spending flows. These include “final demand” (i.e. consumer spending, government spending and exports to the rest of the world); intermediate spending patterns (i.e. what each sector buys from every other sector – the supply chain); how much of that spending stays within the economy; and the distribution of income between employment income and other income (mainly profits). Input-output tables are therefore particularly useful when estimating indirect and induced economic impacts.

The idea behind the input-output table is that the economy can be divided into a number of producing industries, and that the output of each industry is either used as an input into another industry, or in final consumption. For example, grain produced by the farm sector becomes an input into flour milling; flour produced by the milling sector becomes an input into the baking sector, and so on. In essence an input-output model is a table that shows who buys what from whom in the economy.

Figure AA.1: A simplified input-output model



Source: Oxford Economics

Reading across horizontally illustrates the distribution of each industry’s output, split between intermediate demand from other industries (used as an input to production) and final demand (consumer spending, exports and other

government consumption). Therefore, Industry 2 in Figure AA.1 purchases an amount, C_{2,1} from Industry 1 as an input to their production process. Thus, reading down vertically indicates what each industry purchases from other industries in the national economy by way of inputs which, when combined with imports from abroad (leakages), employment costs, operating surplus and any additional taxes or subsidies to production, give total inputs, which will equal total outputs. In the simple model illustrated in Figure AA.1, C_{8,1} will equal C_{1,8}.

A primary application of domestic use input-output tables is to create multipliers that are used to illustrate how an increase in demand in one sector affects the whole economy:²²

- **Type I multiplier** – estimates the impact on the whole economy of £1 spent in a given industry, through its supply chain.
- **Type II multiplier** – includes the Type I multiplier, but also includes the effect of spending by households as a result of the additional employment generated by the additional £1 spend. The multipliers reported in this report are Type II multipliers.

To calculate the indirect and induced impacts for Hospitality industry, domestic-use input-output tables, available for the UK economy from the ONS, were used to build a bespoke input-output model. The ONS tables can be downloaded here: <http://www.ons.gov.uk/ons/rel/input-output/input-output-analytical-tables/2010/index.html>

²² In a domestic IO table intermediate demand has been adjusted to remove the effects of imports. Imports are itemised in a different part of the IO table.

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