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## **THE RELATIONSHIP BETWEEN HOUSHOLD CONSUMPTION AND ACTIVITIES OF TOURISM IN RN MACEDONIA**

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### **ABSTRACT**

In the structure of modern economies there are two main trends: the relative increase in tertiary (service) activities in total aggregate product (GDP) and the dominant share of personal consumption (C) in total national income (Y).

Considering this fact, a paper's goal isto examine the structure of household consumption. In particular, the paper exploresthe impact of household consumption in tourismactivities, and vice versa.

The paper attempts to alert the need for use of household consumption in the formation of the model of statistical measurement of domestic tourism consumption.

Household consumption in RN Macedonia is directly affected by the indicators of income and living conditions. In the area of tourism activities thatis expressed through travel (vacation) data.

**KEY WORDS:** household consumption; service activities; accommodation and food service activity; disposable income; tourist trip.

## INTRODUCTION

The significance of tourist consumption comes from the fact that there is no tourism without tourist expenditures. Basically, the economic importance of tourism occurs as a consequence of consumption in the tourist destination.

The initial thesis is that the stagnation of tourism activities in the structure of the service sector in RN Macedonia, among other things, is due on the relatively low representation of Macedonian household's consumption as demand for tourism services.

Typically, countries often focus on international tourism because of export earnings. However, domestic tourism remains the leading form of tourism worldwide. In 2017, domestic tourism accounts for 73% of total global tourism spending (\$ 3.971 billion). Domestic travel is the main driving force of travel and tourism in larger countries (economies). In fact, in 22 out of the 31 analyzed countries, domestic tourism accounts for at least 50% of total travel and tourism expenditures. [15]

The paper search for an answer to the question of whether and how the tourist consumption of Macedonian residents in residential accommodation and food service capacities can be improved, without denying the strategic goal to develop tourist spending of foreigners in the Macedonian economy (activities of tourism in RN Macedonia).

### **Household consumption in tourism activities- some methodological and statistical challenges**

The well-known equation for macroeconomic equilibrium states that total spending in the economy ( $C + I + G + NX$ ) is equal to the total output in the economy ( $Y$ ). Household consumption ( $C$ ) is the dominant and most important component of total expenditures in macroeconomics in the structure of GDP. [1]

As is known, *domestic tourist consumption* comprises the consumption of resident visitors at tourism activities capacity within the economic territory of the country in reference, in their non-usual environment (out of living place). It is different from *inbound tourism* (the consumption of non-resident visitors within the economic territory of the country of reference) and

*outbound tourism* (the consumption of resident visitors outside the economic territory of the country of reference).[16]

Domestic tourism worldwide is a dominant but insufficiently visible part of overall tourism activity due to lack of data and generally accepted definitions of domestic travel. Tourism statistics have traditionally international economic and financial objectives in which only international tourism (outbound and inbound tourism) is relevant to determine trade (foreign exchange) balances and export-import flows.[4]

A common practice in standardized household income/expenditure surveys (HI / ES) is to record the expenditures incurred by residents in a particular administrative area per product, but do not take into account the exact location where this spending is occurring (out of living place). Without establishing such information it is not possible to distinguish tourism consumption of other types of consumption or it may cause incompatibility with the foreign tourism (inbound tourism).[11]

Expenditures for food and beverage in RN Macedonia among young people and the old people are in line with research made in USA). [5] The theory explains this with the so-called propensity to spending discretionary income in tourism, i.e. the need to derive segments of domestic consumers who have the tendency to spend discretionary income on domestic tourism.[3]

### **Structure of household consumption in RS Macedonia**

The data from the table 1 show that final consumption of households in RN Macedonia around 40% consists of services. This brings us to be interested about portion of those expenditures in activity accommodation and food service activities. Indirectly, it can be seen from the data on household consumption by purpose. Such data are presented in table 2.

**Table 1 Final household consumption by durability in RN Macedonia Structure (%)**

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Total	100,0	100,0	100	100
Durable goods	4,0	4,4	4.4	5.0
Semi-durable goods	5,4	5,3	5.5	5.5
Non-durable goods	52,2	51,8	51.8	51.1
Services	38,4	38,5	38.3	38.4

Source:State Statistical office, RN

Macedonia<http://www.stat.gov.mk/Publikacii/3.4.17.02.pdf>

The consumption of households in restaurants and hotels (accommodation and food service activities) absorbs about 5% of the total consumption. Considering standards of living of citizens in RN Macedonia when 4% of durable (investment) goods are consumed and around 90% of consumption is for current life (personal consumption)- tourism consumption becomes a "luxury".

**Table2. Household final consumption expenditure by purpose in RN Macedonia**

	Structure (%)			
	2014	2015	2016	2017
Total final consumption expenditure	100.0	100.0	100	100
Food and, beverages, tobacco	37.6	37.5	38.5	38.1
Transport	8.9	8.7	8.6	9.1
<b>Restaurants and hotels</b>	<b>4.2</b>	<b>4.2</b>	<b>5.0</b>	<b>5.0</b>
Recreation and culture	3.3	4.2	3.7	4.0
Communications	3.4	3.1	2.9	3.2
Education and health	3.0	3.1	3.2	3.4
Miscellaneous goods and Services	39.8	40.0	38.1	37.7

Source:State Statistical office, RN

Macedonia<http://www.stat.gov.mk/Publikacii/3.4.17.02.pdf>;

author's calculations

Also, resident's household consumption in tourism can be assessed through the prism of the global financial crisis 2008-2009<sup>1</sup> which seriously affected international tourist travel.[14] For Macedonian tourism, this meant the need for a tactical change in order to attract domestic tourists within the framework of the international tourism strategy (not only inbound tourism but more domestic tourism and less outbound tourism). In support of such tactics is the result of the index for international competitiveness in tourism and travel in RN Macedonia, where in 2019 it was 3.4 (maximum of 7.0) in the period from 2015 to 2019 has further fall in rank list from 82 to 101 seats.[13]

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<sup>1</sup> After I finished the paper, the tourism consumption and supply worldwide have been hit hard by the global pandemic caused by a virus COVID-19.

### **Income and living conditions in RN Macedonia and tourism consumption**

The purchasing behavior of the tourists varies due to the differences of tourists in terms of demographic structure, length of stay, types of accommodation used, purpose of visit and many other aspects. The only common content of all behaviors of the tourists is their disposable income, which reflects the micro patterns of consumption of tourists and economic impact of the tourism destination. [12]

In RN Macedonia tourist consumption of domestic households is slower. For example, in the period January-August 2019 compared to the same period last year, the number of tourists by domestic tourists increased by 1.3%, while the foreign by 2.7%; the total number of nights spent by domestic tourists increased by 0.3% and that of foreign tourists by 3.2%. [8]

**Table 3. Total disposable household income by type in RN Macedonia - annual average per household**

In denars

	2015		2016		2017	
	Urban area	Rural area	Urban area	Rural area	Urban area	Rural Area
Total disposable Income	351.689	325.327	373.712	329.296	390.900	352.564
Wages and salary	215.395	162.311	233.085	170.487	241.866	194.940
Income from self-employment	35.160	83.745	36.164	79.011	37.285	70.646
Income from property	388	88	826	470	844	606
Pensions	84.131	58.578	87.666	57.721	91.455	62.376
Social transfers	14.080	9.886	13.706	12.878	15.506	14.192

Source: State Statistical office, RN Macedonia; [www.stat.gov.mk/Publikacii/2.4.18.13.pdf](http://www.stat.gov.mk/Publikacii/2.4.18.13.pdf) and author's calculations

These conditions are due to the indicators of income and living conditions in RN Macedonia. The distribution of household members by economic status is only 25% of employees and even half are retired, unemployed or inactive. The rate of poor people (poverty rate) is over 20% and the poverty line for a four-member household is 190,000 dinars (3,450 USD) in annual revenue

and so on.[10] This means that very few households are preoccupied with spending their disposable income on consumption in tourism activities.

The data from the table no. 3 shows that household incomes in RN Macedonia are predominantly of wages from employment in firms (over 60% in urban; 50% in rural areas). Household incomes in rural areas are smaller than those in urban areas, with the exception of the category of self-employment. Received transfers are higher in rural areas households (status of assisted persons). The income from self-employment in rural areas, although higher in mass than in urban areas, is not large enough to stimulate increased consumption in tourism but rather to provide a livelihood.

#### **Household consumption in RH Macedonia for travel**

Macroeconomic theory shows that consumption is a positive function of disposable income - it grows as household income increases. [1] Outbound tourism demanded by households is a function of disposable incomes. Inbound tourism demanded by foreigners is a function of tourism prices and exchange rates of the country in reference. More and more people can afford themselves to travel. Research suggests that to increase domestic demand for tourism annual level of income should be over 35,000 USD. For international travel the annual income should be over US \$ 50,000. [6]

**Table 4. Structure of persons according to the data on vacation in RN Macedonia in 2016**

	Total	Were not on annual vacation	Were on annual vacation			
			Total 100%	in the country %	abroad %	combined %
<b>Total</b>	<b>100</b>	<b>74.56</b>	<b>25.44</b>	<b>29.55</b>	<b>61.27</b>	<b>9.18</b>
<b>Economic activity</b>	<b>%</b>					
Persons who work	39.10	70.26	29.74	28.67	61.96	9.36
Persons who don't work	9.90	78.86	21.14	28.16	66.53	5.30
Persons with personal income	16.35	83.98	16.02	39.64	47.22	13.14
Supported persons	34.85	73.75	26.25	28.07	63.22	8.71
<b>Type of household</b>	<b>%</b>					
One member	2.63	88.12	11.88	38.60	40.82	20.57

Four members	31.02	65.14	34.86	27.47	62.55	9.98
Six members and more	23.50	84.41	15.59	35.00	65.00	-
<b>Ownership of a vacation home or second apartment</b>	<b>%</b>					
Own	5.33	37.16	62.84	24.43	56.63	18.93
Do not own	94.67	76.67	23.33	30.32	61.97	7.71

Source: State Statistical office, RN

Macedonia [www.stat.gov.mk/Publikacii/8.4.17.03.pdf](http://www.stat.gov.mk/Publikacii/8.4.17.03.pdf) and author's calculations

Data from the table 4 shows that in RN Macedonia proportion 70% that do not go against 30% who go on vacation is retained in all categories of residents. Employment or unemployment does not affect very drastic decision to vacation. In the more numerous households the number of people who were not on vacation increases because of the reduced purchasing power consumption. The indicator for a vacation house (country house) indicates that instead of reducing the vacation time it increases. The reason is in the "rich" status of these households. Finally, whether they will spend from the disposable income on vacation at home country (domestic tourism) or abroad (outbound tourism) is directly related to the economic (income) status of the persons. It is negative that the consumption of households in tourism activities in foreign countries is increasing with the increase of disposable income.

As for the reasons why they were not on vacation, financial reason (70%) is predominate. It is interesting that as many as 15% have undefined reasons (social and psychological reasons). [9]

#### **Impact of capacities in accommodation activities on domestic tourist consumption**

How can tourism capacities be adapted to increase the opportunities for residents in underdeveloped countries? Increased negative impact of poverty on domestic tourist consumption generally require some sort of outside intervention, often at the local level, coupled with the activities of government or international level. Understanding statistics (distinguishing internal tourism and inbound tourism from domestic tourism), together with its limitations is an important component of appropriate action - strategic and tactical. [2] The question is how "poor" economies can "get" (poor) resident to

spend more on tourism (at home country) but also to "make" (poor) resident households that are professionally engaged in tourism to be richer, through appropriate offer also for domestic residents. It is also a challenge for tourism in the Macedonian economy.

Knowledge of the mechanisms for the formation of choice for tourists is of primary importance to all stakeholders in tourism. From the supply side, identifying the choice of tourists can help service providers and policy makers about the destination to design appropriate actions for specific groups of domestic consumers. The demand of domestic tourists also can influence companies in tourism activities to manage quality of the tourism product. Finally, domestic tourists should not be ignored in the process of formation tactics for dealing with periods of crisis in tourism, which is particularly important for tourism policy of underdeveloped countries. For domestic tourists, from a psychological perspective, should be better understand their decision-making process for the choice of destinations and tourist activities. [7]

Data from the table 5 show that in RN Macedonia, and after the first decade of the 21st century, in the structure of accommodation establishments dominate the hotels with lower level of equipment (quality). It stimulates outbound tourism consumption and it discourages domestic tourism consumption. Thus, from the 30% of Macedonian residents who were on vacation, 60% were on vacation abroad (see table 4).

**Table 5. Accommodation establishments by type in RN Macedonia**

	Accommodation unites		Number of Rooms		Number of beds		Surface area m2
	2010	2016	2010	2016	2010	2016	2016
Total	383	574	11.39 2	17.23 5	33.93 3	46.289	908.345
Hotels total	147	230	5.093	8.610	12.38 1	20.380	432.135
Hotels 5 and 4 stars	31	81	1.957	4.792	4.400	11.953	257.678
hotels (3, 2, and 1 stars)	116	149	3.136	3.818	7.981	8.428	174.457
Boarding houses	3	3	31	38	73	77	900
Motels	8	19	139	322	402	711	10.228

Spas	6	6	516	524	1.231	1.322	27.729
Workers' vacation Facilities	84	44	1.333	739	3.629	2.425	27.780

Source: State Statistical office, RN

Macedonia <http://www.stat.gov.mk/Publikacii/8.4.11.02.pdf>  
[www.stat.gov.mk/Publikacii/8.4.17.05.pdf](http://www.stat.gov.mk/Publikacii/8.4.17.05.pdf)

The privatization process of accommodation establishments (units) has led to the process of transferring a range of establishments from workers' vacation facilities to less equipped hotels, while spas are negligible. Both do not offer a supply which purpose is for consumption of the disposable income of Macedonian households caused by health, urban or social needs. All this suggests that household consumption in accommodation establishments is associated with a poor supply that does not even attract low-income consumers. Thus, 63% of the unemployed and 66% of the supported persons was on vacation abroad (see table 4).

#### **Impact of capacities in food service activities on domestic tourist consumption**

**Table 6. Catering establishments by activity of enumerated catering establishments for 2016 in RN Macedonia**

	Catering Establishments		Seating capacity	Surface area (m <sup>2</sup> )
	number	%		
<b>Total</b>	<b>4.383</b>	<b>100</b>	<b>221.611</b>	<b>472.596</b>
Hotels and similar accommodation	10	0.23	860	1.440
Camping	3	0.07	72	168
<b>Restaurants and mobile food service activities</b>	<b>3.078</b>	<b>70.23</b>	<b>168.174</b>	<b>362.781</b>
Other food service activities	103	2.35	2.958	6.445
Beverage serving activities	1.176	26.83	48.776	99.857

Source: State Statistical office, RN

Macedonia [www.stat.gov.mk/Publikacii/8.4.17.05.pdf](http://www.stat.gov.mk/Publikacii/8.4.17.05.pdf)

The main characteristic of catering establishments is that they are almost exclusively outside of accommodation establishments (70%), thus avoiding

synergy with the activity of accommodation. The consumption of Macedonian households in food and beverage restaurants is an "autonomous" service activity that is based on a need for social (often negative) and urban inert-induced consumption (cafes, betting and gambling house, nightclubs, etc.). Any economic crisis is difficult for all consumers, but the oldest and youngest can be particularly hard hit, and that influence expenditure patterns. In RN Macedonia also, older consumers may have little opportunity to recover, from market volatility. Younger consumers also tend to have limited and increased difficulty finding a job during economic downturns. Therefore, majority of Macedonian households do not travel out of living place to discover new taste and nutrition. Mostly, the purpose of visiting catering establishments is spent a lot of disposable leisure time.

### **Conclusion**

The increase in household's disposable income, i.e. positive growth in indicators of quality of life, and in the case of RN Macedonia will lead to an increase in domestic tourism consumption (demand), as part of the household's services sector expenditures. On the supply side it will be an impulse for increased production of tourist products.

The consumption of households in the domestic capacities of accommodation and catering should be increased by institutional and business measures: double price (different price for inbound tourists and domestic tourists or/and lower prices for non-seasonal months); direct fiscal incentives to support the domestic tourist consumption of Macedonian residents toward tourist organizations, tourism business firms or direct residents; marketing and promotional campaigns for popularization of domestic tourists consumption; adjustment the relationship between transport and tourism (quality of transport infrastructure improves destination and quality of life for visitors and residents) and more.

Due to the low level of utilization (underutilization) of tourism activities establishment in RN Macedonia, [13] the marginal cost of an additional unit of domestic tourist is low, and the marginal revenue is high, which also affects the increase of marginal profit. Hence, from micro aspect, any additional domestic tourist increases the profitability, and in no way decreases it.

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