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The Gulf of Mexico oil disaster: A case study on the projected economic impact on tourism among the Gulf States of Louisiana, Mississippi, Alabama, and Florida

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THE GULF OF MEXICO OIL DISASTER:
A case study on the projected economic impact on tourism among the Gulf States of Louisiana,
Mississippi, Alabama, and Florida

By

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Bachelor of Arts
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ABSTRACT

This case study found that from May through July 2010 most reports from Gulf area hospitality providers noted a significant drop in tourism revenue due to the BP oil spill. During this period, anecdotal accounts from business owners in the area described a sales decrease of 50% or more in some tourist spots. A University of Southern Mississippi study found that for that state alone non-gaming hotels experienced a 50% drop in sales with a total factored direct/indirect shortfall of \$119,400. A Moody's report, released in July, calculated the economic damage to tourism for that period to be \$1.2 billion. Since the leak ended in mid-July, and not August as the report predicted, the actual prorated loss totals \$900 million to the area tourism industry. The results of a Rasmussen Reports poll, released in July 2010, revealed that 66% of respondents stated that they would not change their future travel plans due to the spill. A follow-up study is required as at the time of writing a limited amount of economic impact data was available.

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PART ONE

Introduction

On April 20, 2010, an oilrig named the Deep Water Horizon, operated by the international energy conglomerate BP, ignited, exploded, burned for two consecutive days, and then sunk in the Gulf of Mexico taking the bodies of eleven workers down with it. The resulting structural damage for this event was a ruptured deepwater pipeline located one mile beneath the ocean's surface. This pipeline spill went completely uncontained for 22 straight days, partially contained for 64 more days (May 12 to July 15), and then at 3:24 p.m. on Thursday, July 15, 2010 the well was capped-off. During most of those 87 days the world watched the oil continuously release into the ocean from BP underwater live camera feeds positioned only a few feet from the damaged wellhead (as ordered by the US Congress). Once the new cap was fitted in place and the oil stopped flowing, the world that was helplessly watching the real-time decimation of the planet took a collective sigh of relief.

From all estimates of the leakage, it appears that between 180-185 million gallons of crude oil emptied into the Gulf during this period. These events were part of the worst environmental disaster in US history, relating to crude oil spills, surpassing the Exxon Valdez (EV) accident of 1989 by a precipitous margin. The EV disaster released a total of "11 million gallons of crude oil...into the Prince William Sound in less than five hours" (Carson, Mitchell, Hanemann, Kopp, Presser, & Ruud, 1992, p. 4). In an average comparison of the total amount of gallons of oil lost, the Gulf Oil Spill (GOS) of 2010 will be recorded as 17 times larger of an event than the EV. One major difference between the two incidents was the total size of the areas affected. For instance, Prince William Sound (Alaska) is an isolated, remote, and relatively small area that encompasses approximately "10,000 square miles of water" and "1,000 miles of

shoreline” (Carson, et. al, 1992, p. 4). In comparison of the overall size of both spills, the GOS will end up affecting the entire Gulf ecosystem which spans “600,000” square miles“, and has a total coastline of “3,540 miles” (U.S. Environmental Protection Agency, 2010, p. 1). This area stretches from “Cape Sable, Florida to the tip of the Yucatan peninsula” (U.S. Environmental Protection Agency, p. 1). Further, the EPA stated in a report that “if bays and other inland waters are included (in this Gulf of Mexico estimate), the total shoreline increases to over 16,000 miles in the U.S. alone” (U.S. Environmental Protection Agency, 2010, p.1).

This catastrophic event added to pre-existing difficult financial times for business folk making a living serving the visitors to the Gulf. Most of these businesses had not fully recovered from the direct and/or residual effects of Hurricane Katrina of 2005 (Louisiana and Mississippi, specifically), and the Great Recession of 2008-10. For some of these hard hit businesses, the added fiscal burden of the GOS will force some to implement internal cost-cutting measures, such as employee firings, layoffs, and benefit package reductions, in order to avoid bankruptcy and stay afloat. The full extent of the damage that the GOS will have on hospitality businesses along the coast has yet to be calculated. The early capping of the well, along with effective cleanup efforts, has saved the last month and a half of the 2010 tourist season and many visitors will return.

The main reason for this exploratory case study is to investigate the economic effects that this disaster has had, thus far, on the hospitality businesses located in this region of the country. The flow of the paper will be as follows. *Part 1* will introduce the problem and then describe the purpose, justification, and overall limitations of this study. *Part 2* is for review and reporting on extant literature related to the economic effects of the hospitality and tourism industry of the Gulf region. This review will be using financial impact data, and various other sources that are

listed within *Part 2*, that was accessible to the researcher at the time of report compilation and writing (on or before Sunday, July 25, 2010). *Part 3* of this case study is for analyzing the data presented, and then concluding with a general discussion of the case and a recommendation for future study.

Purpose

The purpose of this study is to research, locate, and report the amount of fiscal damage that the GOS of 2010 will have on the hospitality and tourism industries of Louisiana, Mississippi, Alabama, and Florida.

Justification

The justification for this study is to expand the knowledge base of information relating to this important topic in hospitality and tourism. Another rationale for this study is an attempt by the researcher to increase the general awareness concerning the current and future economic situation of hospitality providers in the region.

Limitation

The primary limitation of this study is that at press, Sunday, July 25, 2010, full and complete economic impact data is not available. This limitation made it difficult to calculate an accurate loss of revenue for the providers of the region from May to August 2010, as some of the predicted negative effects did not manifest fully.

PART TWO

Literature Review

Introduction

The following is current literature that was located concerning the economic impact of the Gulf region prior to July 25, 2010. This report uses data from state and governmental agencies, journal articles, newspaper and television reports, and regional tourism bureau sources. Some of the information listed in this review is anecdotal, such as quotations from interviews with area local business owners, and was included in this report in order to show real-time on-the-ground economic and emotional effects.

Louisiana

In a report released on Tuesday, July 6, 2010, the Louisiana Office of Tourism remarkably reported that “much of the Louisiana Gulf Coast is unaffected by the oil spill and remains open for commercial and recreational fishing” (Louisiana Office of Tourism, 2010). In regards to the direct effects on New Orleans tourism, the report stated that the Crescent City “foresees no disruption in guest service or any negative impacts on visitors” in the near future (Louisiana Office of Tourism, 2010, p. 1). Further proof that Louisiana currently has avoided major effects from the spill was stated by “Stephen Perry, president of the New Orleans Metropolitan Convention & Visitors Bureau” who said that the “downtown hotels have had fewer than 2% cancellations since the oil leak began” (Jones & Jervis, 2010, p. 3). Even though the reports of tourism effects have been minimal so far, the future residual effects are difficult to quantify at this time for the state of Louisiana. As one writer pointed out, “it is...almost inevitable that coastal-based tourism businesses will suffer and that there will be significant losses” (Young, 2010, p. 1).

In a June 2010 interview, Visit Florida President Christopher Thompson (who was recanting a story regarding the negative perceptual effects of New Orleans tourism), revealed that “An American medical organization recently doubted planning a 2015 conference in New Orleans...The meeting of 15,000 means a ‘\$30 million piece of business’ to the city (Morales, 2010, p. 2). What can be gleaned from this previous interview is that even though the current rate of Louisiana tourism seems relatively unaffected by the spill, there does exist a perception among meeting and travel planners that this area of the globe should be avoided for a few years to come. In response to this perception Louisiana, along with the other affected states, have begun aggressive tourism marketing campaigns funded by BP aimed at alleviating global tourist anxiety.

Mississippi

In a recent economic impact study conducted by Butler and Sayre (2010), researchers at the University of Southern Mississippi, the authors estimated the GOS economic effects on the three coastal Mississippi counties of Hancock, Harrison, and Jackson. The period covered for this study is from May through August 2010. In the study, the researchers found that May 2010 revenues for “non-casino hotels were down 50 % from this time in 2009” with the total estimated impact (loss in revenue) of “\$26,880,000” (Butler & Sayre, 2010, p. 1). In addition, the authors factored in the indirect economic losses of this region by “using a multiplier of 1.4” (Butler & Sayre, 2010, p. 1). The final calculation revealed that the total estimated revenue loss for the three southernmost counties of Mississippi to be approximately “\$119,400,000” (Butler & Sayre, 2010, p. 2).

The one sector of Mississippi tourism that affected during this crisis has been the charter boat fishing industry. This area of commerce has seen a drop in revenue of “over 90%” when

compared to the 2009 statistics (Butler & Sayre, 2010, p. 2). This type of highly-stressed business environment, where sales literally disappear overnight, is an unsustainable situation for any business. Without significant financial support, by the government and BP, many of these boat owners may be forced to scull their ships and seek other areas of employment. As stated by the authors, this may be a Mississippi commercial industry that is in complete and utter “free fall” (Butler & Sayre, 2010, p. 2).

Fortunately, not all of the information in the report was of a negative tenor, as revenues within the casino hotel sector in the cities of Biloxi, Gulfport, Long Beach, and Bay St. Louis, held steady. The authors went on to state that “gaming revenue and casino hotels have not felt the impact from the oil spill, but remain cautious” (Butler & Sayre, 2010, p. 3). The summary for this report stated that the researchers estimated “revenue losses from May-August 2010 to be...down 5% from the same period in 2009...” (Butler & Sayre, 2010, p. 1).

Alabama

The following stories are from TV and news reports from Dauphin Island, Alabama, a very popular beach and recreation area. Both of the following accounts are from beach activity for Sunday, July 4, 2010. “The sun shone, the sand glistened, and the water was pleasant Sunday at Dauphin Island's public beach. There was only one thing missing from this otherwise perfect 4th of July: People” (Murtaugh, 2010, p. 1). Another report was posted by WKRG reporter Chad Petri (2010) who stated, “Both the Hangout and Ribs & Reds in Gulf Shores report sales that are down by half this weekend (p. 1)”.

Another report of lost tourism occurred on June 15, when the “Alabama Deep Sea Fishing Rodeo Board of Directors and Executive Committee announced on its website they were

canceling the 78th Rodeo” because of the oil spill (Oil Spill News, 2010, p. 1). In the news report there was no mention of the amount of revenue that was lost due to this cancellation.

Even though the economic effects to Alabama tourism has been as substantial as the rest of the states listed, as is seen in the anecdotal reports above, actual financial impact data is not accessible at this time. The Governor of Alabama, Robert R. Riley, recently “ordered the Finance Department to do an extensive analysis that will measure the spill's impact from the Tennessee border to the Gulf of Mexico” (Ellington, 2010, p. 2). Further, Alabama State “Finance Director Bill Newton said an extensive study of the spill's impact on Alabama is under way...Information gathered in the next few months will show the economic and environmental impact on the state's coastal counties as well as other parts of the state” (Ellington, 2010, p. 1).

Gulf of Mexico full-time marine researcher John Valentine, who is employed at the Dauphin Island Sea Lab (Alabama), may have summed it up best when he stated that “we should be more impressed by what we don’t know (about the effects of the oil spill) than what we do know” (Fahrenthold, 2010, p. 4).

Florida

The beaches of the Florida Panhandle, such as Destin and Pensacola Beach, up until this point in time have experienced both the direct and residual economic effects of this disaster. As of Sunday, July 25, 2010, only a relatively small amount of oil has actually reached the shores of these cities. This is due to many factors such as favorable ocean currents, stable weather patterns, aggressive offshore prevention methods (skimmers and booms), and extensive clean-up activities (beach crews). Unfortunately, the negative perception that formed in the minds of the summer vacationing public has persuaded many travelers to avoid the area entirely until the situation is completely under control. Case in point, reporter Michelle Ruiz (2010) interviewed a Destin

Beach area motel owner...about the economic effects that she was noticing in her own business and she stated that she was “75% booked over the Independence Day holiday weekend, but concerned over lack of reservations for the rest of the summer (p. 2).” Another example of these effects can be found in the concerned words spoken by “Julian MacQueen, owner of the Hilton Pensacola Beach Gulf Front and several other hotels on the coast (who) says that before the massive oil leak, occupancy was up 20% over last year” (Jones & Jervis, 2010, p. 1). The hotel owner went to state that the “fear of oil seeping onto local beaches has caused the uptick (in sales) to go flat” (Jones & Jervis, 2010, p. 1).

Hanks (2010) stated that a current report released by “Moody’s...recently warned of strains on tax revenue for local governments across the Gulf if property values take a dive because of oil contamination (p. 1).” The author also mentioned that the “report even warned that in a nightmare scenario of currents taking large amounts of oil to the Sunshine State the spill could slam Florida harder than the recession” (Hanks, 2010, p. 1).

For the state of Florida, tourism accounted for “80 million visitors” to the state’s economy and “generated \$60 billion” in total revenues for 2009 (Morales, 2010, p. 2). In addition, the peak tourist season, one that generates most of the yearly tourism dollars, occurs between the months of “June through August” and accounts for “70 percent of its yearly income during the summer” (Morales, 2010, p. 2).

Conclusion

As can be seen from the literature presented, the total economic impact for this region of will be available in the upcoming months. Due to this fact, a follow-up study needs to be completed in late October, 2010 as at that time more financial results will be accessible.

PART THREE

Introduction

As can be seen from the background information from Part 1, and the review of the literature from Part 2, complete economic impact data for Louisiana, Alabama, and Florida is not available. The only completed impact study located, relating to the four individual states, was the Butler & Sayre (2010) report on revenue for the three southern Mississippi counties listed in the literature review. A report by the Moody's Analytics was located, released on July 14, 2010, and reported by Baribeau (2010), that offer impact estimations for the region including the effects to the US economy as a whole. This report will be discussed within the conclusion section of this study.

Case Discussion

The results of the case study revealed that there exists a very limited amount of financial reporting related to the impact of the GOS as of July 25, 2010. This lack of information is mainly due to the timing of this case study. As stated previously, this situation has recently begun to resolve due to the stopping of the flow ten days from the writing of this report (July 15, 2010) and actual financial data is beginning to be released, albeit slowly. Some of the information that is included in the literature review is purely anecdotal and based on in-the-field news interviews with regional hospitality providers. This information is valuable when trying to determine real-time economic effects, but is not reliable enough data when figuring actual losses of business revenue. Further, the lasting effects of the recession are a hidden aspect in the overall drop in sales for this region and are not accounted for in the figures released.

Conclusions

The most recent report released by Moody's states that there is an anticipated "loss of \$1.2 billion in output and 17,000 jobs in the Gulf Coast states by the end of the year but little economic impact in the rest of the country" (Perez, 2010, p. 1). One important note to mention about this report is that it was based on information released by BP and the US Government which assumed that the flow of oil would be stopped in "early August" (Baribeau, 2010, p. 1). Since the leak stopped on July 15, by the fitting of a temporary wellcap, the Moody's estimation should be adjusted by deducting the extra thirty days that was included in the report. Prorating the \$1.2 billion estimated loss of revenue, dividing the total figure by the four months affected (May to August), reveals a monthly average loss of \$300 million. Further, if we deduct the monthly amount of loss (\$300 million) by the original amount (\$1.2 billion) then the adjusted loss of revenue for the region is near \$900 million. In the same article, the author quoted the Moody's report which stated that "The environmental costs will be undoubtedly enormous (to the region), but the effect on the national gross domestic product, income and employment will be minimal as with most national disasters" (Perez, 2010, p. 1).

In conclusion, a Rasmussen Reports (2010) survey, released on Wednesday, July 21, questioned people's attitudes towards visiting the area and the study revealed that "89% of adults are at least somewhat concerned about the economic impact" from the spill (p. 1). In addition, and most importantly, the survey further stated that "two-out-of-three adults (66%) are not likely to change their (vacation) plans" to the affected area because of the GOS (Rasmussen Reports, 2010, p. 1). The preceding poll results suggest positive news for businesses in the Gulf as it appears that a fairly large majority of those surveyed responded favorably to the question regarding revisiting the region in the near future. If all goes as planned with the capping and eventual sealing of the well by BP, then the hospitality and tourism industry for the Gulf should

escape this catastrophe with relatively limited and short-lived fiscal damage. Hopefully, this damage will not exceed the recalculated prorated loss of \$900 million in tourism revenue for Gulf purveyors. What effect the impact of the GOS will have on future corporate and leisure traveling behavior to the area is anyone's guess. One thing seems clear though, now that the spill is contained and the nearshore area and beaches are virtually cleared of oil, dispersant, and debris, tourism will undoubtedly return to the area. The question is will tourism revenues rebound to pre-GOS levels in a relatively short period of time, or, will the economic impact be longer lasting? Only time will tell.

Recommendation

A follow-up research study should be conducted in three months time, October of 2010, as at this time more data will be available for review and a more comprehensive and accurate financial analysis can be completed. Information regarding all aspects of this disaster appears to be updated on a daily basis and as time progresses, and more information, a truer representation of the economic damage will be revealed.

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