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Research note

Political uncertainty and the us tourism index returns

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Introduction

Recent dramatic events, such as Syrian civil war, Brexit referendum and the US-China trade war, have proved the vulnerability of tourism industry to external shocks. For instance, the British global travel group, Thomas Cook officially declared bankruptcy on September 23, 2019 due to high debt levels and a bad merger. However, apart from financial factors, analysts also blame Brexit for the dramatic collapse of the company, causing British travelers to delay their holiday plans (Garcia, 2019). Increasing uncertainty may lead to lower company earnings and stock prices in tourism industry as the demand decreases and the cost of doing business raises.

A vast majority of empirical papers analyzes the tourism demand forecasting and macroeconomic determinants of tourism (see Gunter, Önder, & Smeral, 2019 for a review). In recent years, along with the heightened global uncertainty, non-macroeconomic factors affecting tourism industry have attracted greater attention from researchers. These factors include terror events (Zopiatis, Savva, Lambertides, & McAleer, 2019), and various sources of uncertainty such as economic uncertainty (Demir & Gözgör, 2018) and geopolitical risks (Demiralay & Kilincarslan, 2019). This note aims to extend the existing literature by analyzing the vulnerability of US tourism & travel stock index to political disagreement among U.S. politicians, proxied by the Partisan Conflict Index. This is also the first paper that considers the role of partisan conflict in explaining US tourism returns.

Theoretically, increased partisan conflict can adversely affect tourism stock prices through different channels. As suggested by Azzimonti (2014), intense partisan conflict may increase uncertainty among households and firms. When uncertainty is high, individuals have greater intensive to delay or cancel their consumption decisions, such as travel plans, which in turn leads to lower tourism company earnings and stock prices. In a recent study, Das, Dutta, Bhadra, and Uddin (2019) argues that tourism sector is particularly sensitive to uncertainty for security, safety, and stability reasons. Gupta, Mwamba, and Wohar (2018) further claims that business cycle fluctuations resulted from higher partisan conflict affect stock markets via movements in real economic activity. In addition, investors may require higher returns as compensation for increased political uncertainty, causing a decline in equity prices. Our results suggest that a high degree of partisan conflict decreases tourism stock returns; however, the sensitivity is highly regime-dependent.

Data and methodology

The data are retrieved from different sources. The Dow Jones U.S. Travel &Tourism index prices are downloaded from Bloomberg. The partisan conflict index developed by Azzimonti (2014) is extracted from Federal Reserve Bank of Philadelphia (https://www.philadelphiafed.org/research-and-data/real-time-center/partisan-conflict-index). It measures the degree of political disagreement

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