

The recovery of international tourism in Spain after the pandemic

Article 08
12/01/2023

<https://doi.org/10.53479/29461>

Rationale

International tourism indicators in Spain are consolidating their recovery towards pre-pandemic levels, after virtually all restrictions on international travel were lifted. Against this background, the changes observed in tourists' country of origin and travel behaviour should be analysed.

Takeaways

- Tourist flows are yet to fully recover 2019 levels, essentially due to the continued weakness in long-haul tourism, particularly from Asia.
- However, tourism receipts have already reached pre-crisis levels, driven in part by Spain attracting more visitors with greater spending power, as borne out by the rising proportion of higher quality hotel accommodation.
- The expectations for the next three months are somewhat cautious due to the uncertainty prompted by the deteriorating economic outlook and the upsurge in inflation. In the long-term, international tourism flows will be shaped by the sector's capacity to continue improving the quality of its tourism offering.

Keywords

International tourism, overnight stays, tourism expenditure.

JEL classification

E00, F19.

Authors:

Coral García Esteban
Economic Developments Department
Banco de España

Ana Gómez Loscos
Economic Developments Department
Banco de España

César Martín Machuca
Economic Developments Department
Banco de España

Introduction

International tourism flows are a key determinant of developments in the Spanish economy. Specifically, in 2019 tourism exports accounted for 5.7% of GDP, 3 percentage points (pp) more than in the euro area as a whole. Moreover, international tourism has a larger relative share in Spain than in other major tourism destinations such as France and Italy, where tourism exports represented 2.3% and 2.5%, respectively, of GDP in 2019. It is precisely this trait of the Spanish economy that explains, at least in part, why the pandemic had a larger impact on Spanish GDP and its subsequent recovery relative to the euro area as a whole (Banco de España, 2022). Accordingly, a detailed analysis of international tourism developments is essential in order to assess the country's economic outlook.

This article aims to examine recent international tourism developments in Spain based on monthly tourism flow and expenditure indicators. It begins by analysing the strength of the recovery in terms of tourism flows (arrivals and overnight hotel stays) and how far that improvement has fed through to tourism expenditure indicators. Next, the short and medium-term outlook for international tourism in Spain is assessed.

The results of this analysis indicate that in the first three quarters of 2022 international tourism in Spain maintained a gradual recovery towards pre-pandemic levels. However, the recovery is incomplete and Asian tourist flows remain very weak. The recovery pattern in the wake of the pandemic suggests certain changes have taken place in the composition of tourism flows, potentially signalling improvements in the country's ability to attract tourists with higher spending power, underpinned by a rising proportion of higher quality hotel accommodation. The outlook in the short term is favourable, in line with developments in air traffic indicators. However, the balance of risks is tilted to the downside, owing to the deteriorating economic prospects in Spain's main source markets for tourism and the upturn in prices, which erodes household spending capacity. In the long term, international tourism developments will be influenced by the sector's capacity to continue to attract higher-spending visitors, which calls for consolidation of the quality gains and further diversification of the tourism offering.

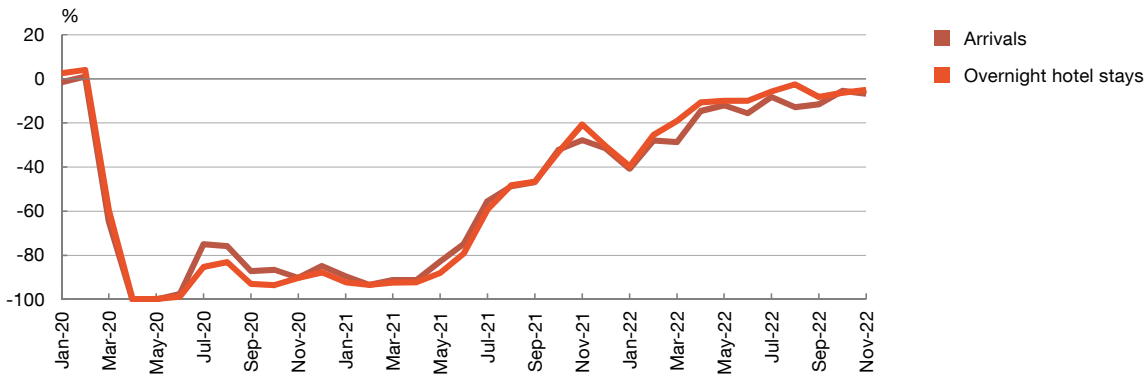
The recovery of international tourism flows in Spain

Over the course of 2022, the lifting of virtually all international travel restrictions in the main source markets for Spanish tourism drove a considerable recovery in tourism flows. Thus, in the summer season as a whole, non-resident tourist arrivals stood 10.8% below the figure for the same period in 2019 (a year in which all-time highs were recorded), compared with a gap of 50.4% against the 2021 summer season (see Chart 1.a). However, the recovery of international tourism inflows eased over the course of the summer, putting the September figure 11.6% down on 2019 levels.

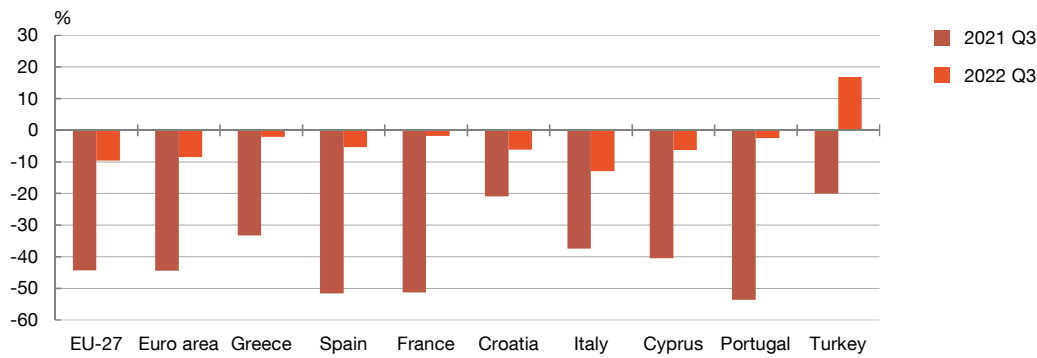
Chart 1

In Spain, international tourism consolidated its recovery in the summer season

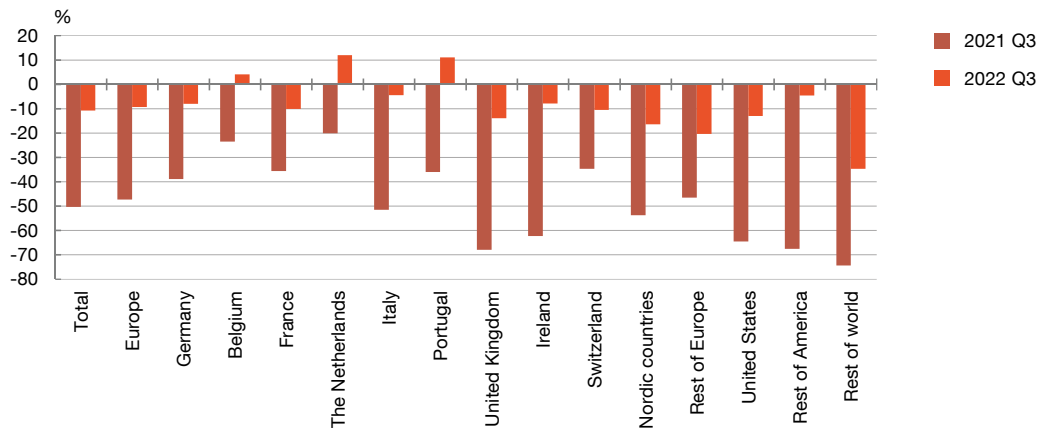
1.a Tourism flows
Change vis-à-vis 2019



1.b International comparison: non-resident overnight hotel stays
Change vis-à-vis 2019



1.c Tourist arrivals, by country of residence
Change vis-à-vis 2019



SOURCES: Eurostat and INE.



In Spain, the international tourism recovery has been driven by pent-up demand for international travel and the stock of extraordinary savings built up after two years of pandemic (Martínez-Carrascal, 2022). To date, this momentum appears to have largely offset the adverse impact on tourism flows of the war in Ukraine, a worsening economic outlook and the erosion of household purchasing power against a backdrop of high inflationary pressures. The recovery slowed over the summer months, with a more lacklustre performance from German and British tourism, probably due to the upsurge in inflation and, above all in the case of Germany, the adverse repercussions of the war, particularly in terms of the supply and rising cost of natural gas.

Compared with the European Union (EU) and the euro area overall, non-resident overnight hotel stays in Spain performed more favourably in the 2022 summer season than in that of 2021, when Spain's recovery was weaker than in the EU and the euro area overall¹ (see Chart 1.b). However, some major competing destinations outpaced Spain in terms of non-resident overnight stays, including in 2022. A case in point is Turkey, which has recovered very robustly following the pandemic, with 2022 Q3 figures comfortably outstripping those recorded in the same period of 2019 (see Chart 1.b).

In any event, Spain's international tourism recovery has been uneven across the various attributes that characterise tourism flows.

First, in terms of source country, the recovery has been more robust in tourist arrivals from Europe, which in 2022 Q3 stood 9.3% below 2019 figures, compared with 20.2% for non-European tourism (Frontur figures, see Chart 1.c). As a result, Europe's share of total tourist arrivals increased to close to 88% (up by around 1 pp on 2019 Q3). However, some heterogeneity has also been observed across the European countries. On the one hand, some source countries, such as Portugal, Belgium and the Netherlands, are comfortably exceeding pre-pandemic levels. On the other, Spain's two main markets, the United Kingdom and Germany, are yet to fully recover, standing 14% and 8%, respectively, below pre-pandemic figures.² Lastly, among European markets, arrivals from Scandinavian countries are also recovering more sluggishly.³ In the rest of the world, tourist arrivals from America, including the United States, are particularly buoyant, against the backdrop of an appreciating dollar that is driving down the cost of travel to euro area countries. Conversely, according to the scant data available, the recovery in arrivals from Asia remains very weak⁴ due to more stringent health policies, particularly in China.

Second, by purpose of travel, the recovery is at a somewhat more advanced stage in business tourism than in holiday and leisure tourism, although the latter make up the bulk of arrivals (around

1 Spain's more unfavourable performance in 2021 appears to have been mainly driven by adverse epidemiological developments in the country at the beginning of the 2020 and 2021 summer seasons, along with its dependence on tourism from the United Kingdom, which recovered more slowly while the country's "traffic light" system was in force, which restricted international travel for UK residents (García, Gómez Loscos and Martín, 2021, and Banco de España, 2022).

2 In any event, British tourism improved very markedly compared with the summer of 2021, thanks to the lifting of the severe restrictions adopted by the UK authorities during the previous summer.

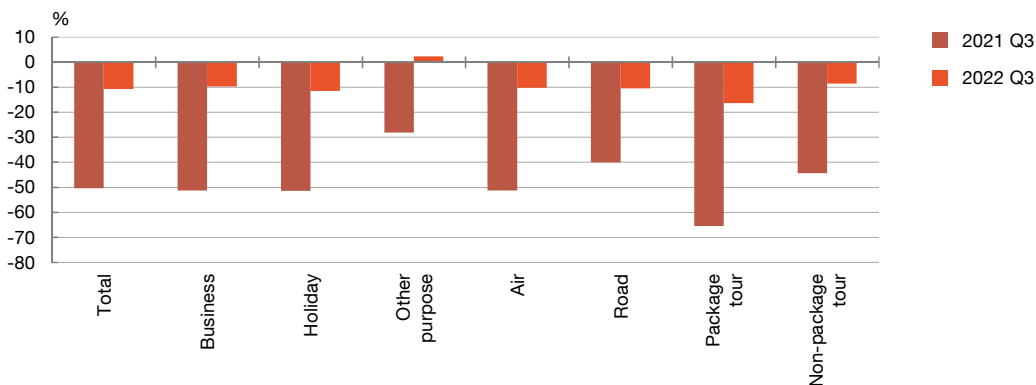
3 The recovery in Nordic tourism has been handicapped by fewer air connections with Spain, after the pandemic threw Norwegian Air into crisis. The outlook for 2023 points to a gradual improvement in these connections.

4 For example, according to the Hotel Occupancy Survey, overnight hotel stays by Japanese tourists were down by 73.4% on 2019 Q3. In October the decline was of 74.3% compared with the same month in 2019.

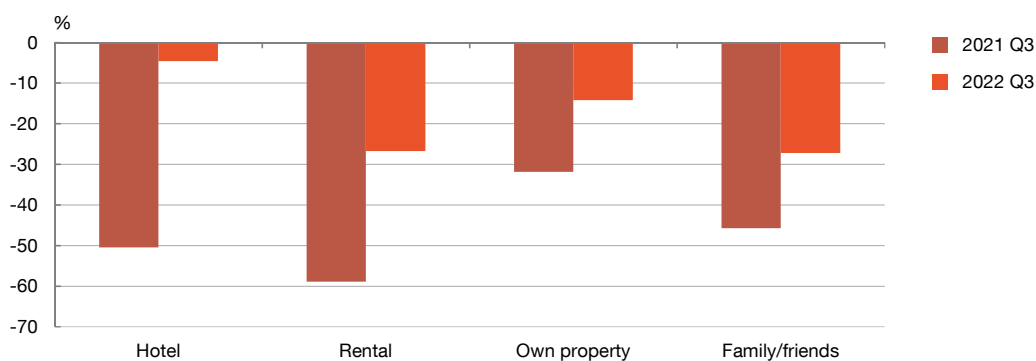
Chart 1

In Spain, international tourism consolidated its recovery in the summer season (cont'd)

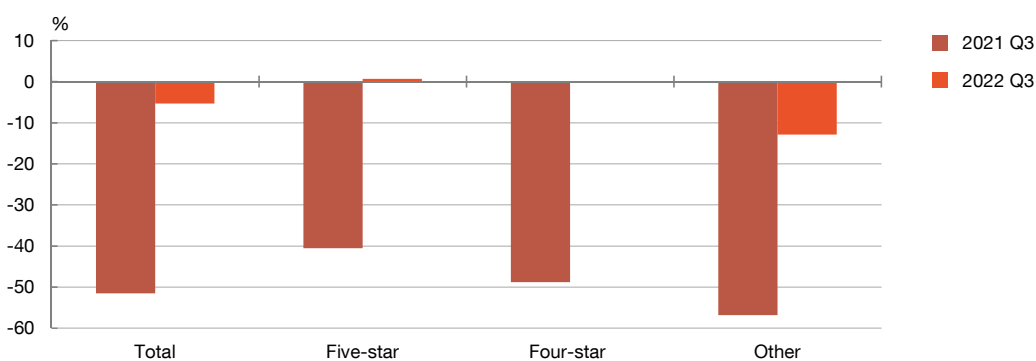
1.d Tourist arrivals, by purpose of travel, mode of transport and travel arrangement
Change vis-à-vis 2019



1.e Tourist arrivals, by type of accommodation
Change vis-à-vis 2019



1.f Overnight hotel stays, by accommodation category
Change vis-à-vis 2019



SOURCE: INE.



91% of the total). In Q3 as a whole, international business tourism arrivals stood 9.8% below 2019 levels, compared with 11.5% for holidaymakers (see Chart 1.d). However, this recovery in business tourism may owe to temporary factors associated with pent-up demand for business travel following the pandemic.⁵ Therefore, it is still too soon to determine the medium-term equilibrium level for business tourism, after the pandemic accelerated digitalisation in the business environment.

Third, in terms of mode of transport, the preponderance of air transport in Spain (close to 80% of the total) had an adverse bearing on tourist arrivals due to the international travel restrictions at the height of the pandemic. The gradual normalisation of passenger flights during 2022 drove a recovery in this mode of transport, which in Q3 as a whole stood 10.3% below 2019 levels, similar to the gap for road transport (see Chart 1.d).⁶

Four, by type of travel arrangements, package tours (which represent a minority of total tourism arrivals: 26.4% in 2022 Q3) recovered more slowly and remain significantly down on 2019 Q3 levels (16.4% lower, compared with 8.6% for non-package travel). Package tours are particularly popular among British and German tourists, with a share of 44% in 2022 Q3 in both countries, compared with 26% in all non-resident tourist arrivals. Average spending is higher among package tour holidaymakers, who also prefer hotel accommodation (96% in Q3, 34 pp higher than other tourists) and travel overwhelmingly by air (94% in Q3, 20 pp more than non-package tourists).

Fifth, as regards the different types of accommodation, hotel stays improved much more than non-hotel accommodation. Thus, while arrivals of tourists staying at their own, rental or family homes remained between 14% and 27% below pre-pandemic figures, arrivals of tourists lodged at hotels were a mere 4.6% below the 2019 level (Frontur figures, see Chart 1.e).

There is also some heterogeneity by hotel category. In particular, the recovery was more intense in higher-quality hotels. According to data from the Hotel Occupancy Survey, overnight stays at five-star hotels were slightly above pre-pandemic levels, those at four-star hotels were almost as high, while overnight stays at lower-category hotels were 12.9% lower in 2022 Q3 (see Chart 1.f). This has led to a 2.8 pp increase in the relative weight of higher-category hotels (to 54.2%), which may reflect a greater ability to attract tourists with a higher purchasing power owing to improvements in the quality of the tourism offering.

Tourism expenditure by non-residents

In 2022 Q3, nominal spending in Spain by non-resident tourists was also close to 2019 figures (only 2.7% below), compared with a fall of 51.3% in 2021 Q3 (see Chart 2.a). However, the recovery towards pre-pandemic spending levels lost momentum over the course of Q3, in step with the

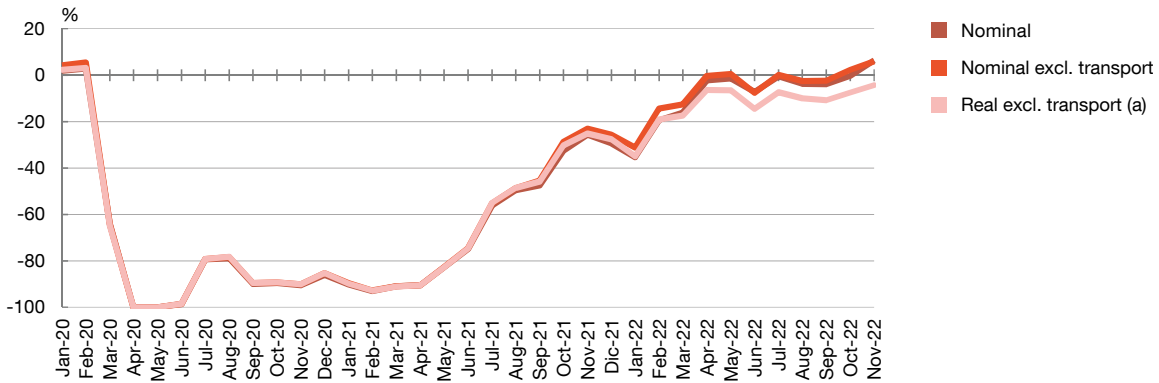
⁵ According to tourism industry sources, the average stay for business trips is growing longer and such travel is now more compatible with leisure tourism thanks to remote working (Exceltur, 2022).

⁶ The other modes of transport (maritime and rail) represent a very small fraction of tourist arrivals (around 3% overall).

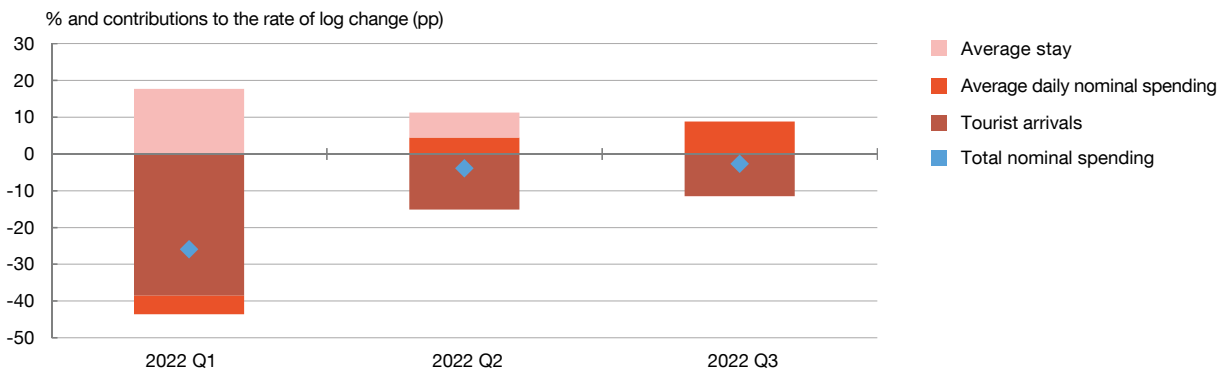
Chart 2

Non-resident tourist spending approached pre-pandemic levels

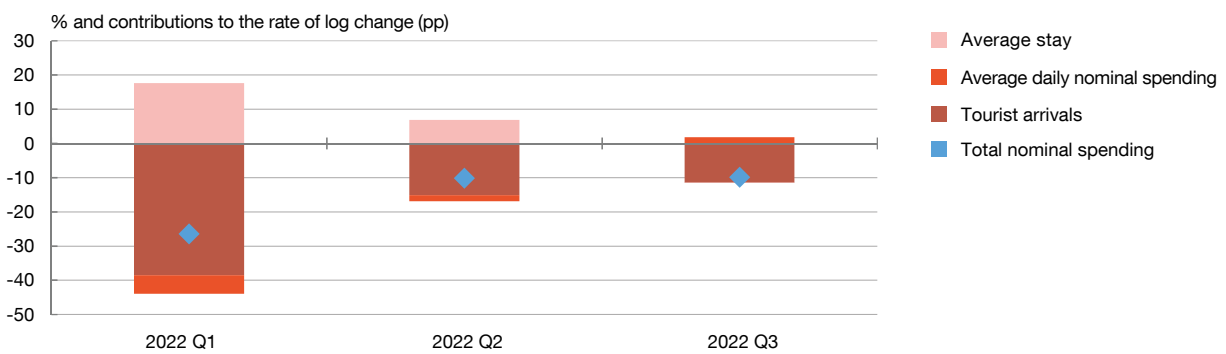
2.a Total non-resident tourist spending
Change vis-à-vis 2019



2.b Nominal tourist spending
Change vis-à-vis 2019



2.c Real tourist spending excl. transport (a)
Change vis-à-vis 2019

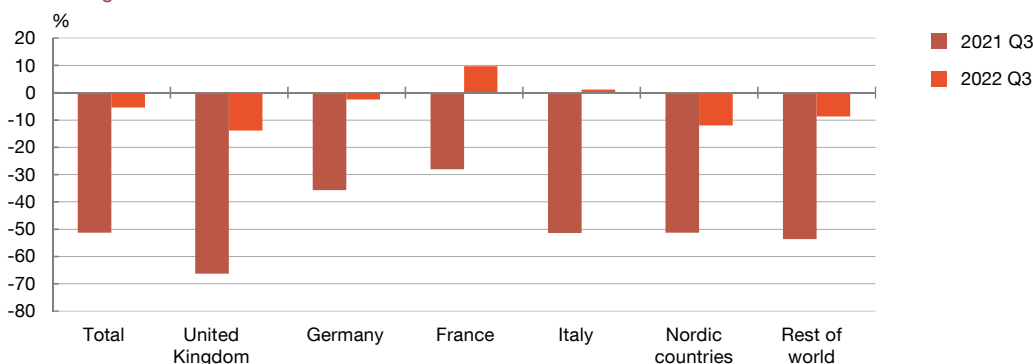


SOURCE: INE.

a To calculate real spending excluding transport, the nominal series is deflated using the CPI for tourism and hospitality.



Chart 2

Non-resident tourist spending approached pre-pandemic levels (cont'd)2.d Total nominal spending, by country of residence
Change vis-à-vis 2019

SOURCE: INE.

more moderate pick-up in tourist inflows over the summer. Total nominal spending excluding transport followed a similar path, but drew closer to pre-pandemic levels (only 1.5% lower).⁷ In any event, it appears that nominal spending was highly influenced by the rise in inflation in services related to tourist activities. To isolate the effect of prices, the series of expenditure excluding transport is deflated using the CPI for tourism and hospitality. Although real spending is also on a recovery path, since 2019 Q4 the gap against 2021 levels has been wider than that for nominal spending as a result of the rise in prices. Consequently, in 2022 Q3 real spending excluding transport stood 9.8% short of pre-pandemic figures.

A variety of factors are behind this recovery in nominal tourist spending. As shown in Charts 2.b and 2.c, the recovery is more intense in nominal terms than in real terms. The rise in tourism prices, in a setting of upward cost pressures, has driven the increase in average daily spending in nominal terms. Meanwhile, a moderate recovery in real average daily spending is seen, which could reflect the aforementioned improvement in hotel accommodation (especially the higher category kind). Conversely, a weaker recovery in package tours may have limited the upward spending trend, since this type of tourism's daily spending tends to be higher. For its part, the incomplete recovery in tourist arrivals continued to contribute negatively, although less than in previous quarters. Lastly, the contribution of average stays, which became slightly negative in Q3, deteriorated, as the positive gap vis-à-vis 2019 narrowed in the preceding quarters.

By source country, the information available shows an uneven path of recovery in nominal spending (see Chart 2.d). Some markets, such as France and Italy, already exceeded total spending in 2019, driven by the buoyancy of tourist inflows from these source countries. By contrast, total spending

⁷ This metric of tourism expenditure excluding transport is considered because it better approximates tourism exports in National Accounts terms (Banco de España, 2019). Drawing on Tourism Expenditure Survey (Egatur) data, in 2022 Q3 transport accounted for 17.3% of international tourists' total nominal spending.

by British and Nordic tourists was still below the 2019 levels, conditioned by a slower recovery in tourist arrivals and, in the case of the United Kingdom, by the depreciation of the pound sterling.

Risks and factors influencing the future outlook of international tourism

The favourable prospects for international tourism in Spain seem to have remained unchanged in the final stretch of 2022, according to the most recent information available. Tourist inflows in the last part of the year continued to approach the 2019 figures, both in terms of arrivals and of overnight hotel stays, standing as at November 6.7% and 5%, respectively, below such levels. Once again, overnight hotel stays in higher category hotels performed particularly well.⁸ Air traffic indicators confirm this positive outlook: international passenger arrivals stood as at November 2022 around 7% below their level in the same month of 2019 and the December forecasts are favourable, such that at year-end the gap relative to the pre-pandemic situation is expected to narrow to 2.6% (see Chart 3.a). Spending continued to increase in November, exceeding its 2019 levels in nominal terms (by 6.4%, and by 5.9% if spending on transport is excluded). However, real spending excluding transport remained below pre-pandemic levels in October (by 4.3%). This lends weight to forecasts of non-resident tourism returning to pre-pandemic levels over the course of 2023, in line with the sector's expectations (Exceltur, 2022).

Notwithstanding the above, these prospects are surrounded by high uncertainty and the balance of risks is skewed downwards. First, the factors supporting demand for international travel, such as pent-up demand and the savings built up during the pandemic, will foreseeably lose steam in the coming months. Second, the more adverse factors characterising the present situation will tend to exert more influence. These include the course of the war in Ukraine and its repercussions, the worsening economic outlook in Spain's main tourism generating markets and the decline in households' purchasing power owing to the rise in inflation. Indeed, the more unfavourable performance recorded in October of British and, especially, German overnight stays may be the first sign of these adverse effects materialising. The lower spending power could lead to a loss in appeal compared with alternative, less expensive, Mediterranean destinations. An additional factor is the Spanish tourism sector's vulnerability to bouts of pound sterling weakness, since the United Kingdom is the leading tourism source market for Spain.

To assess the impact of some of these risks to Spanish tourism exports we present below two exercises based on an error correction model which relates tourism exports to their traditional main determinants.⁹ In particular, we simulate the effect of a sterling depreciation against the euro of 2.4%, equal to that observed from end-2021 to the latest figure available, and of a decline in the pace of GDP growth for 2023 in the EU and the United Kingdom of 2 pp and 2.5 pp, respectively, in line with the downward revisions to the European Commission's projections between the spring and autumn forecasting exercises (see European Commission, 2022). The results suggest that tourism exports

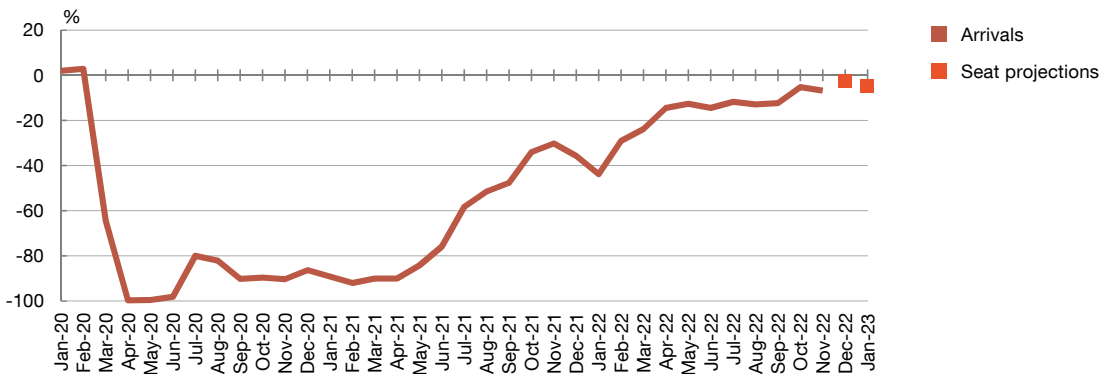
⁸ In terms of overnight stays by source country, France was markedly buoyant, Britain just short of pre-crisis levels and Germany still around 11% below pre-pandemic figures.

⁹ Specifically, economic activity in the source countries as a whole, price competitiveness approximated by the real effective exchange rate vis-à-vis developed countries and oil prices are included as determinants (for more details, see Banco de España, 2018).

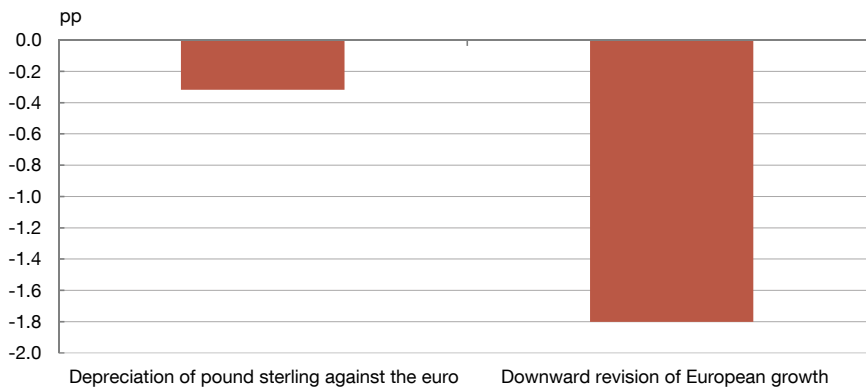
Chart 3

The outlook for international tourism in Spain is favourable, but the balance of risks is skewed downwards

3.a International air passenger arrivals
Change vis-à-vis 2019



3.b Sensitivity of real tourism exports (a)



SOURCES: Aena, Ministerio de Industria, Comercio y Turismo, and Banco de España.

a Response of tourism exports to a depreciation of the pound sterling against the euro similar to that recorded between December 2021 and November 2022 (of 2.4%) or a decline in projected growth for 2023 in the EU and the United Kingdom (similar to the downward revision of 2 pp and 2.5 pp, respectively, between the European Commission's spring and autumn forecasting exercises).



could drop by around 0.3 pp if the pound sterling depreciates and by close to 1.8 pp in the event of lower GDP growth in the EU and the United Kingdom (see Chart 3.b). The two decreases would have a relatively significant impact on the path of growth of tourism exports anticipated for next year.

Over a medium-term horizon international tourism in Spain will remain highly dependent on air transport, which may become more expensive amid the EU's ongoing green transition, an initiative that could drive up airfares owing to the emissions levels of current aircraft technology. These potential effects could be more intense on long-distance tourism, where the share of spending on air transport is high, and on certain business travel segments, since firms could cut down on these types of flights to reduce their carbon footprint. Additionally, uncertainties persist regarding the equilibrium level for (i) business tourism, despite its favourable performance over the course of 2022, given the headway made in digitalising business activity, and (ii) Asian tourism, which remains relatively far from its pre-pandemic levels.

Despite these sources of uncertainty, Spain is a highly attractive tourism destination because it is perceived as a safe country and has quality infrastructures. Investments are required to retain this appeal and to renovate and improve tourist areas, particularly those that are more saturated and mature. The growth of tourism receipts could be reinforced by Spain becoming more attractive to tourists with greater average spending power. This requires further effort to improve perceived service quality, to strengthen Spain's appeal as a business, urban and cultural tourism destination, and to adapt to demand which is increasingly channelled through digital media and geared towards tourism that is more personalised, experience-based and committed to environmental sustainability. Efforts to achieve these goals could be furthered by the adequate design and implementation of tourism sector investment plans financed through Next Generation EU funds.¹⁰

REFERENCES

- Banco de España. (2018). "Box 6. The slowdown in non-resident tourism in 2018 to date". Quarterly Report on the Spanish Economy. *Economic Bulletin - Banco de España*, 3/2018. <https://repositorio.bde.es/handle/123456789/9018>
- Banco de España. (2019). "The estimation of travel credits in the balance of payments". *Notas Estadísticas - Banco de España*, 11. <https://repositorio.bde.es/handle/123456789/10826>
- Banco de España. (2022). "An incomplete recovery amid uncertainty: from the pandemic to the rise in inflation and the outbreak of war". Banco de España, *Annual Report 2021*, pp. 55-132. <https://repositorio.bde.es/handle/123456789/21112>
- European Commission (2022). "European Economic Forecast. Autumn 2022". European Economy Institutional Paper, 187, November. https://economy-finance.ec.europa.eu/publications/european-economic-forecast-autumn-2022_en
- Exceltur. (2022). "Valoración turística empresarial del verano (IIIT) de 2022 y Perspectivas para el IVT y cierre de 2022". *Perspectivas Turísticas*, 82. <https://www.exceltur.org/wp-content/uploads/2022/10/Informe-Perspectivas-N82-IIIT-2022.pdf>
- García, Coral, Ana Gómez Loscos and César Martín. (2021). "Box 6. Recent developments in inbound tourism in Spain". Quarterly Report on the Spanish Economy. *Economic Bulletin - Banco de España*, 3/2021. <https://repositorio.bde.es/handle/123456789/17647>
- Gobierno de España (2021). "Políticas palanca y componentes". Plan de Recuperación, Transformación y Resiliencia. <https://planderecuperacion.gob.es/politicas-y-componentes>
- Martínez-Carrascal, Carmen. (2022). "The impact of the surge in inflation and the war on Spanish households' economic outlook". *Economic Bulletin - Banco de España*, 3/2022, Analytical Articles. <https://repositorio.bde.es/handle/123456789/23110>

How to cite this document

García Esteban, Coral, Ana Gómez Loscos and César Martín Machuca. (2023). "The recovery of international tourism in Spain after the pandemic". *Economic Bulletin - Banco de España*, 2023/Q1, 08. <https://doi.org/10.53479/29461>

Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.

© Banco de España, Madrid, 2023
ISSN: 1695 - 9086 (online edition)

¹⁰ Investments directly focusing on the tourism sector are included in component 14 (Modernisation and Competitiveness of the Tourism Sector) of the Recovery, Transformation and Resilience Plan, for a total amount of €3.4 billion. These investments aim to enhance the modernisation and competitiveness of the tourism sector through measures geared toward strengthening their sustainability and digitalisation. For more information, see Gobierno de España (2021).