

Non-resident tourism in Spain was notably buoyant in 2016. Specifically, foreign tourist arrivals were 10.3% up on the already-high level recorded in 2015, reaching an all-time peak of 75.6 million visitors, which also led to a significant 9% increase in total foreign tourist expenditure, taking it to €77.6 billion, the highest figure in the time series. Also, the increase in tourist arrivals in Spain outpaced the much more moderate growth rate of the volume of world tourism, by 6 pp.

This positive performance of non-resident tourism, accompanied by a fresh increase in domestic tourism demand (albeit more moderate than in 2015) enabled tourism GDP to increase by almost 5%, in accordance with the Exceltur indicator, meaning that it exceeded GDP growth for the economy as a whole, as has been the case since 2010 (see Chart 1).¹ The strength of tourism

would largely explain the better relative economic performance in 2016 of the regions where the weight of tourism is greater.²

The performance of non-resident tourism had already been favourable in 2015, boosted by the improvement of its main determinants, such as the recovery in the developed economies (accounting for approximately 90% of our markets), the notable depreciation of the euro (specifically, the nominal effective exchange rate – NEER – against the group of non-euro developed countries was 9.3% weaker in 2015 as a whole), and the decline in oil prices, which lowered transport costs. In 2016 some of these transitory factors tended to lose momentum: developed economies slowed moderately (see Chart 2), while the NEER tended to appreciate and oil prices to increase, although these two variables remained at levels clearly lower than those seen in 2014 (see Chart 3). Additionally, against a backdrop of insecurity in some competing regions, Spain’s appeal as a safe-haven tourist destination has been a determining element, particularly in 2016. Beyond these less persistent factors, improvements in Spain’s economic competitiveness built up in recent years through the

1 Exceltur’s Synthetic Indicator of Tourism GDP (ISTE) is constructed as a linear combination of a set of variables related to tourism demand, both domestic (private consumption and resident overnight hotel stays) and foreign (foreign tourist arrivals, revenues from tourism and travel of the Balance of Payments and GDP of the main tourist origination markets). This indicator allows an approximation to the real growth of internal tourism in Spain.

2 The Balearic and Canary Islands and the Valencia region were, according to AIReF estimates, the regions which grew the most in 2016.

PERFORMANCE AND DETERMINANTS OF REVENUES FROM TOURISM

Chart 1
ACTIVITY IN THE TOURISM SECTOR



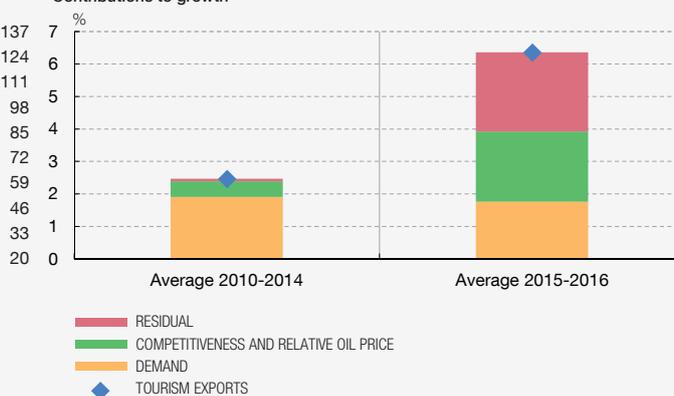
Chart 2
TOURISM ORIGINATOR GDP



Chart 3
EXCHANGE RATE AND OIL PRICES



Chart 4
REAL EXPORTS OF TOURIST SERVICES
Contributions to growth



moderation of labour and financial costs have likewise favoured our country's tourism potential.

Using a simple econometric model which approximates the performance of QNA real tourist revenues based on several explanatory factors,³ changes in the income of tourist countries of origin (GDP), price-competitiveness and exchange rates (PREL by its Spanish abbreviation) and oil prices (PRPETR) would account for around two-thirds of the growth of tourism in the two-year period 2015-2016 and the remaining third would relate to other factors not explicitly included in the model (see Chart 4).

3 Specifically, a single-phase error correction mechanism is estimated for the logarithm of QNA real exports of tourist services, with quarterly data for the period 2000-2015. Tourism demand is approximated using an indicator of the real GDP in the main markets from which tourists visiting Spain originate. The competitiveness variable measures changes in relative prices in Spain (CPI) compared with customer and competitor countries. The cost of travelling to a destination is approximated by the price of oil relative to the cost of living in tourists' countries of origin.

In an attempt to identify these additional factors, it is useful to consider the performance of the so-called tourism competitiveness index prepared by the World Economic Forum, which summarises the performance of different variables explaining a country's ability to compete in world tourism markets (see Chart 5). Spain led the ranking based on this indicator for the first time in 2015. In comparison with 2008, there were notable improvements in two specific areas which would have been strengthened by Spain's traditional lure as a tourist destination, based on its weather, natural resources or infrastructure.

Firstly, as noted above, progress was significant in security, against a background of high conflict in certain competing geographical areas. Specifically, in the aftermath of the Arab Spring of 2011, insecurity swept across the main competitor destinations in North Africa (such as Tunisia and Egypt) and in 2016 extended into Turkey, the sixth most popular tourist destination until then and which would have lost around 30% of its foreign visitors last year (see Chart 6). Secondly, the sector has notably and robustly

PERFORMANCE AND DETERMINANTS OF REVENUES FROM TOURISM (cont.)

Chart 5
TOURISM COMPETITIVENESS INDEX. SPAIN:
MAIN CATEGORIES (c)

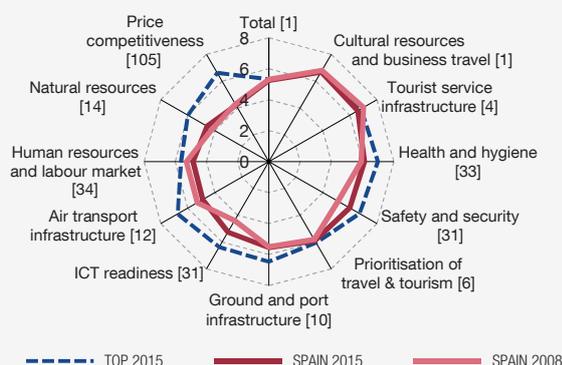


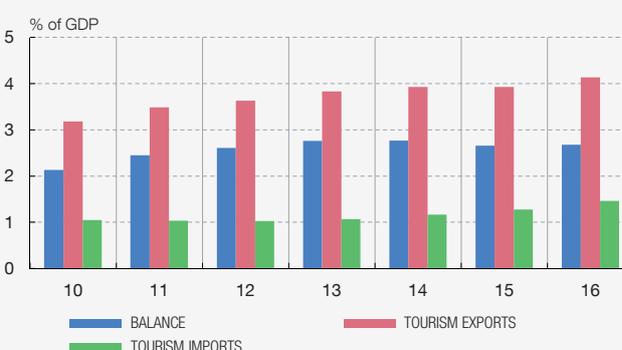
Chart 6
INTERNATIONAL TOURIST ARRIVALS



Chart 7
TOURISTS STAYING OVERNIGHT IN HOTELS



Chart 8
TOURISM SURPLUS



SOURCES: INE; Exceltur, Eurostat, UNWTO and World Economic Forum (WEF).

a Synthetic Indicator of Spanish Tourism GDP, prepared by Exceltur.
b An increase in the index represents a loss of competitiveness and vice-versa.
c In brackets, Spain's position in the ranking by category.

adapted to the new digital consumption habits. Additionally, in terms of revenue, the favourable performance of tourism in 2016 is related to the profile of tourists arriving in Spain, more of whom chose to stay in more expensive accommodation. Specifically, hotels, which are associated with a higher average daily outlay, gained weight in the total, while the average length of stay in this type of accommodation stabilised, interrupting the declining trend of these two variables in recent years (see Chart 7). Also, in 2016 there was an increase in the weight of holiday packages, usually involving overnight stays in hotels, which are more expensive than apartment rentals, the latter being more popular among independent travellers, whose share in the total has decreased. The counterpoint to this is the distribution by country of origin, with a notable recovery of German tourists, whose average destination expenditure is high, whereas the French market slowed slightly, and the daily average expenditure of French visitors is usually lower. Finally, the British market accelerated notably (from 5.1% in 2015 to 12.4%) while the average expenditure per tourist increased

somewhat, despite the heavy depreciation of the pound against the euro following the outcome of the British referendum on its permanence in the European Union.⁴

The momentum of tourism exports in 2016 led to an increase in the share in GDP (in nominal terms) to above 4% (a figure not seen since 2001). However, the notable rise in tourism imports, to 1.5% of nominal GDP, prevented the tourism surplus from improving, and it stabilised at around 2.7% of GDP (see Chart 8). Looking ahead, traditional determinants as a whole can be expected to continue contributing to the growth of tourism in a manner similar to that seen in recent years. In the longer term, the challenge remains of raising the added value of services offered, which would especially help to enhance recent visitor loyalty.

⁴ In part, these developments could be a result of the strong substitution effect among destinations which, in the case of British tourism flows, were seen from Turkey to Spain.