

In the 2016-17 two-year period, inbound tourism flows were extremely buoyant both in nominal and real terms. Specifically, over 2017 as a whole, the arrivals of tourists in Spain and their spending grew by 8.7% and 12.4%, respectively. However, so far in 2018, tourism sector indicators have slowed notably with the result that in the first seven months of the year arrivals of foreign tourists and their spending only increased by 0.3% and 3%, respectively, compared with the same period of 2017. Furthermore, this pattern of deceleration has intensified in more recent months. Notably, in July, the numbers of inbound tourists declined by 4.9% in year-on-year terms. The possible continuation of the latest trends over the next few months could lead to 2018 being the first year since 2009 that growth in tourism in Spain is lower than that of GDP (see Chart 1). The remainder of this box seeks to analyse the explanatory factors of recent developments in the behaviour of inbound tourism in Spain.

The main driving factors of tourism inflows include changes in the economic activity of the source countries for tourism, as a whole, where the latter are weighted as part of the total, as a scale variable, together with other variables that measure changes in costs and in prices relative to their competitors. The course of competitiveness is approximated by the real effective exchange rate vis-à-vis developed countries, which is constructed with consumer prices as an – albeit imperfect – indicator of the relative developments in the cost of goods and services acquired by foreign tourists in Spain compared with the cost of the same consumption basket in alternative tourist destinations. Further, the trajectory of oil prices, insofar as it is the main determinant of transport costs, helps to explain the performance of non-resident tourism.

Nevertheless, the highly robust demand of non-resident tourism seen in 2016-17 cannot be explained solely by changes in its fundamentals. In fact, although the strengthening of growth in the developed economies contributed positively over this period, higher oil prices and the appreciation of the euro had the opposite effect (see Chart 3). A simple econometric model which approximates the performance of Quarterly National Accounts (QNA) real tourist receipts based on these explanatory factors shows how changes in the income of source countries for tourism would account for around 2 pp of the average growth in tourism services exports in the period 2016-17. This is estimated to have been largely offset by the combined, somewhat smaller, contribution of the opposite sign from competitiveness and oil price variables (see Chart 4). As can be seen, all of the factors not specifically included in the model made a very high contribution to growth in tourism in 2016-17. In particular, the perceived lack of safety and security prevailing in certain competitor regions was foreseeably an essential reason for the outstanding performance of tourism in 2016-17. In fact, as a result of the geopolitical situation in certain areas of the Mediterranean basin such as Turkey and North Africa, significant tourism flows were diverted to other countries such as Spain (for Turkey, see Chart 5).

In the first two quarters of 2018, the resumption of the upward path of oil prices and the appreciation of the euro in nominal

effective terms are estimated to have weighed on non-resident tourist arrivals through higher transport costs and the loss of competitiveness relative to non-euro area countries. This led to a slight widening of the negative contribution of these variables compared with the previous two-year period (see Chart 4). Furthermore, the positive contribution of the income in source countries decreased slightly which was linked to the slowdown in activity in the euro area (see Chart 2). However, as shown in Chart 4 the subdued buoyancy of tourism in the first half of 2018 would be explained, especially, by the decline in the positive contribution of other factors, due, notably, to the geopolitical situation in the above-mentioned competitor destinations gradually returning to normal. As indicated by Chart 6, fewer tourists were arriving in Spain from the main European source countries at the same time as tourist inflows to destinations such as Turkey, in particular, were recovering significantly. Specifically, in the first seven months of the year, arrivals in Spain of German, British and French tourists declined, in year-on-year terms, by 5.8%, 2.8% and 1.7%, respectively, in contrast to the arrivals in Turkey of tourists from each of these three countries which rose by 20.5%, 37% and 24.1%<sup>1</sup>.

As mentioned earlier, inflows of foreign tourists slowed down slightly more sharply than average spending per tourist which seems to suggest that there is a small composition effect whereby the low-cost segment would have weakened relative to the higher-spending segments. This may reflect that the recovery of other Mediterranean destinations has been based on the lower-end of the tourist market. In any event, the trend towards higher growth in average spending per tourist has already been observed over the last decade, along with an increase in the relative weight of stays in high-end hotels compared with mid-low end hotels (see Chart 7). These signs of a slight shift towards higher quality tourism could be part of the hoteliers' response to the saturation of certain destinations on the coast and to some market innovations such as the emergence of the digital platforms of the sharing economy which compete for more-price sensitive tourist demand.

Tourism is very important in the Spanish economy and is a significant support for the external surplus. Specifically, although the slowdown seen this year has interrupted the recent rising trajectory, the share of tourism exports in GDP amounts, in nominal terms, to 4%, while the tourism services surplus has stabilised at 2.9% of GDP (see Chart 8). The importance of tourism, in a highly competitive environment, underlines the significance for the sector of ongoing adaptation to market trends geared, in particular, to improving the supply of high added-value services, in order to achieve a sustained increase in receipts per visitor. This is particularly needed in a setting where, as indicated above, the saturation of certain destinations is restricting the growth of the total number of visitors.

<sup>1</sup> In addition, it has been argued that certain temporary factors could be possible explanations for weak inbound tourism in Spain last summer, such as the world cup and the heat wave in large areas of central and northern Europe, which may have curbed last minute reservations.

**Chart 1**  
ACTIVITY IN THE TOURISM SECTOR



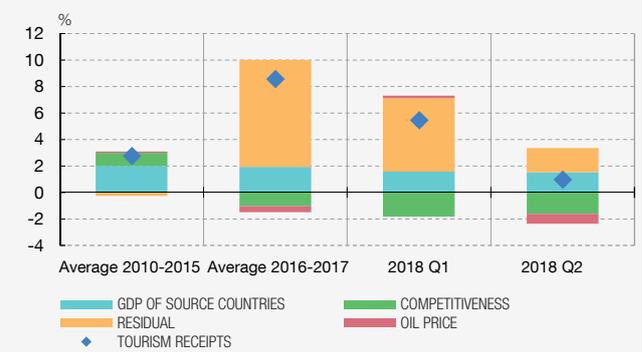
**Chart 2**  
INBOUND TOURISM GDP



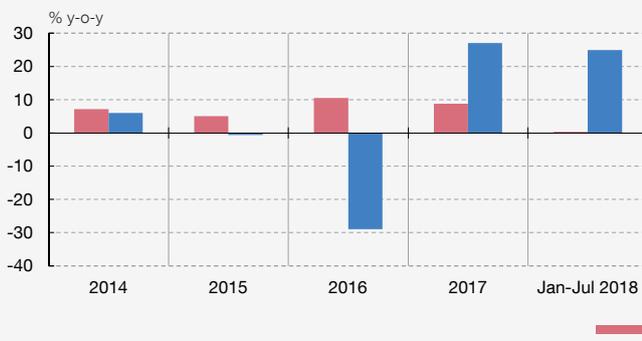
**Chart 3**  
EXCHANGE RATE AND OIL PRICES



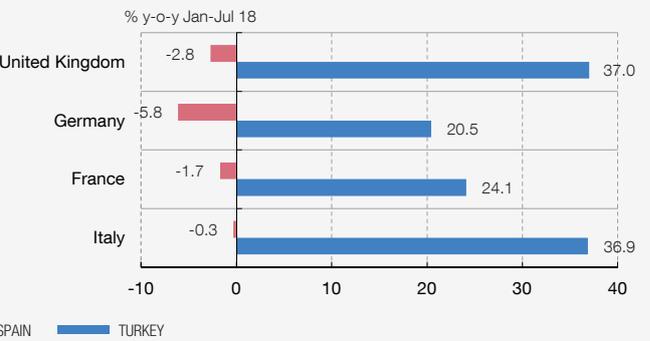
**Chart 4**  
REAL EXPORTS OF TOURIST SERVICES



**Chart 5**  
INTERNATIONAL TOURIST ARRIVALS



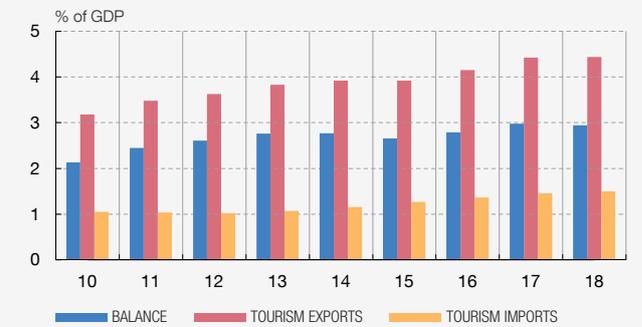
**Chart 6**  
INTERNATIONAL TOURIST ARRIVALS TO SPAIN AND TURKEY BY COUNTRY



**Chart 7**  
INTERNATIONAL TOURISTS BY HOTEL TYPE



**Chart 8**  
TOURISM SURPLUS



SOURCES: INE, Exceltur, Central Bank of Turkey, Eurostat and WTO.

- a. Composite indicator of Spanish tourism GDP and Spanish GDP, compiled by Exceltur.
- b. An increase in the index denotes a loss of competitiveness and vice versa.
- c. High-end refers to 4 and 5 star hotels. Mid-low end refers to all other lower category hotels and hostels and guest houses.