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Artículo Sectorial

Tourism

The toughest year for the

tourism industry

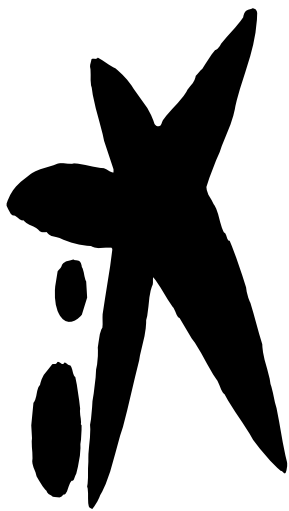
The health crisis caused by COVID-19 has represented an unprecedented shock for Spain's tourism sector. Demand indicators confirm that the stoppage during the months of lockdown was total, both for international and domestic tourism. The end of the state of emergency and the recovery in international mobility within the EU have helped to revive flows of tourists to Spain. The outlook for the coming months points to a relatively rapid upturn in domestic tourism with a more gradual recovery for international tourist flows, although the delicate situation of the pandemic will still be a major source of uncertainty.

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Catalan Spanish



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Mobility has played a vital role in the success of Spanish tourism in recent decades. The great expansion in international air connections and the connectivity boom brought about by the creation of the Schengen area helped Spain to go from receiving 32 million international tourists in 1995 to over 83 million in 2019, becoming the world's second country in terms of international visitors, only outdone by France. So far, in 2020 the global spread of COVID-19 has put the international and domestic mobility of the world's population on hold. The lockdown measures implemented by a large number of countries to control the pandemic resulted in 183 countries with closed borders or entry restrictions by the end of June. This has caused international tourist flows to plummet and Spain has been no exception.

The state of emergency and the paralysis of tourism

Spain declared a state of emergency on 14 March which led to the closure of its borders. Between that date and the 15 June, the first day on which a group of German tourists were allowed onto the island of Mallorca, no foreign tourist could travel to Spain. According to INE figures, 10.5 million international arrivals were recorded between January and May 2020, 63.9% fewer than over the same period in 2019. The extent of the decline is similar if we look at spending by foreign tourists up to May (-61.7%) as well as the overnight stays in tourist accommodations (-61.5%). All this provides unequivocal proof that, in April and May, the slump in international tourism business, which accounts for 70% of tourism demand, has been extraordinarily severe.

The state of emergency also resulted in a lockdown for the local population so that, until May, the reduction in domestic tourist flows was similar to that for international tourists. Overnight stays in tourist accommodation by Spanish travellers fell by 62.8% year-on-year between January and May. However, the recovery in domestic mobility has been one of the main aspects of Spain coming out of the lockdown, with hotel business picking up slightly at the end of May.

According to data from the hotel occupancy survey, 82,600 Spanish travellers stayed at a hotel in May, with an average stay of 2.5 nights. This is a very small volume (98% less than in May 2019) but it illustrates that lifting the lockdown has already started to have a positive effect on domestic tourist flows.

New sources of information to track the evolution of tourism in real time

Given the current situation, which changes from week to week, the description provided by official data, most of which are available up to May 2020, gives a somewhat outdated picture of sector's current status. Therefore, in recent months economic analysts have particularly focused on exploiting higher frequency indicators that enable us to monitor the situation in real time. A large number of

technology companies and public institutions have made an effort to make daily mobility statistics available to the public as these provide an insight into the extent of the impact and, most importantly, how quickly business is getting back to normal.¹

One particularly useful indicator is produced by Google based on its Google Maps mobile app. As can be seen in the chart, the drop in mobility outside the home during the most intense phase of the state of emergency peaked at 80%² whereas a clear change in trend can be seen as of 2 May, the first day the lockdown began to be lifted in stages. In just one month, the population's level of mobility reduced its decline compared with pre-COVID levels from 68% to 29%. As already noted, this upturn in mobility at the end of May led to the first overnight stays at hotels during the state of emergency. June's data suggest that the recovery in domestic mobility continued to advance (around -12% at the end of the month) and it will presumably continue to improve over the coming months provided we manage to prevent the spread of the virus without having to return to strict, widespread lockdown measures.

1. The INE has produced a mobility indicator based on data from the main telecommunications companies in Spain. The Ministry of Transport, Mobility and Urban Agenda has published daily mobility statistics from the records of the transport infrastructures it manages (road, train stations, airports, etc.). Among other technology companies, Google (google.com/covid19/mobility/), Apple (apple.com/covid19/mobility) and CityMapper (citymapper.com/cmi) have published mobility statistics based on the use of their navigation applications.

2. The period with the greatest restrictions on mobility was between 30 March and 15 April, when all non-essential activities were prohibited.

Non-residential mobility in Spain

Change with respect to the baseline* (%)



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Note: Data based on 7-day average. (*) The baseline corresponds to the median mobility recorded on the same weekday between 3 January and 6 February. Source: CaixaBank Research, based on the Google Mobility Report.

Card payment data show that tourist spending is picking up more slowly than mobility

Monitoring mobility is extremely useful as it acts as a leading indicator of the mobilisation of tourist flows. However, it does not provide a completely accurate picture of the current situation or trend in consumption, whether tourism-related or otherwise. For this reason, CaixaBank has also invested a lot of effort in developing real-time indicators using big data methodology and based on card payment data via its point-of-sale terminals, taking advantage of information on the country where the payment card was issued and the type of retail business where the payment was made.³

What these indicators reveal is that consumption of non-essential goods fell to a minimum during the state of emergency, although it recovered strongly once the restrictions on mobility were lifted. As can be seen in the chart, the trend in retail consumption (textiles, household appliances, etc.) using Spanish payment cards has responded very quickly to improvements in local mobility and, since mid-June, has been at a similar or higher level than the same period in 2019. In the case of leisure and hospitality consumption, which depends largely on the local population but is also regularly consumed by tourists, there is a clear upward trend. During

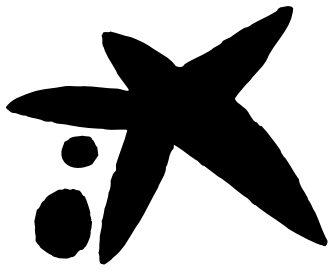
the last week of June, card payments for face-to-face consumption related to leisure and hospitality fell by just 1% year-on-year compared with a drop of around 95% during the state of emergency.

Nevertheless, as far as tourist expenditure is concerned, the recovery is still a long way off. Domestic tourist consumption improved very slightly after part of Spain entered phase 2 of easing the lockdown at the end of May, when public areas in hotels were reopened, and more significantly after the end of the state of emergency at the end of June, when Spaniards were once again allowed to travel between autonomous regions. However, as shown by the chart, domestic tourist expenditure still registered a 47% year-on-year drop between 6 and 12 July. As for consumption by international tourists, this improved sharply after the first few weeks of open borders for citizens from the Schengen area, posting a 74% year-on-year drop between 6 and 12 July, around 22 percentage points (pp) less than before the borders were opened. In conclusion, tourist expenditure is still at an extraordinarily low level but the improved outlook for tourist mobility following the reopening of regional and international borders between Schengen countries (80% of Spain's demand) suggest that the recovery in tourist expenditure may speed up, provided connectivity between origin and destination countries is reactivated and the pandemic remains under control.

3. CaixaBank Research publishes a weekly report (in Spanish) on the real-time trend in this consumption indicator at <https://www.caixabankresearch.com/es/publicaciones/notas-brevs-actualidad-economica-y-financiera>

Face-to-face payments via CaixaBank payment terminals

Year-on-year change (%)



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Notes: Tourist expenditure is estimated based on POS terminal payments at hotels and travel agencies. Source: CaixaBank Research, based on internal data.

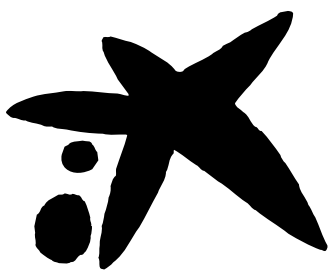
According to Google Trends, international tourists are becoming interested in travelling to Spain again

According to booking and internet search indicators, which point to future demand, interest in tourism in Spain is improving considerably. Google Trends data show that searches carried out from Spain for the term «hotel», which would illustrate domestic tourists interested in making a reservation, went from -84% year-on-year in April to -46% in the last week of June. On the other hand, foreign tourist searches for trips to Spain are picking up in key countries for the Spanish tourism industry. As can be observed in the following charts, if we compare the weekly level of searches carried out from each country with the expected level based on the historical search pattern, we can see that, in the UK and Germany, people's interest in travelling to Spain largely returned to normal during the last week of June, while in the Netherlands it was still slightly below the expected level. In France and Italy, interest was 27% and 47% lower than expected at this point in the year, probably because these are two outbound markets that offer highly competitive domestic alternatives for tourists. In the case of Italy, moreover, the government has launched a direct incentive (up to 150 euros per household) to persuade Italians to opt for a «staycation», so the prospects of Italian tourist arrivals in Spain are less favourable. Finally, in the case of the US, to which the EU

has closed its borders, interest in tourism in Spain continues to fall short of its expected level.

Weekly searches in Google for trips to Spain

Index (100 = historical peak)



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Note: Data from searches for the word «Spain» in each country's official language and within the travel category are used. Expected searches consist of the projected searches carried out based on data from one year previously using an ARIMA model (1, 1, 1)

How the tourism industry will evolve in 2020

Despite the improved outlook suggested by our analysis of the latest figures, it should not be forgotten that the current scenario is highly uncertain and will depend on striking a balance between mobility and safety until an effective vaccine or treatment against COVID-19 is found. The forecasts presented below are therefore largely dependent on the how the pandemic evolves in Spain and in the outbound markets. Our central forecast scenario assumes that the spread of COVID-19 in Spain is kept under control, although it does include the possibility of

spikes which could force localised lockdown measures. We have also worked under the assumption that a vaccine or effective treatment would be available by mid-2021.⁴

Under these assumptions, we expect domestic tourist expenditure to pick up considerably during the second half of the year. Specifically, we predict it will reach very similar, albeit slightly lower, levels than those recorded over the same period in 2019, due to the balance of limiting and supporting factors. Firstly, the health situation will continue to hinder the recovery in demand due to (i) a perception of less safety, (ii) uncertainty regarding the evolution of the pandemic and (iii) the social distancing measures that will be maintained throughout the year. Furthermore, we believe the consequences of the current crisis on the purchasing power of households will lead many Spaniards to spend less on tourism this year for purely economic reasons. On the other hand, the factors supporting the recovery will be (i) the good connectivity offered by the road network for private transport within the peninsula, (ii) the recovery in domestic flights, which are easier to coordinate through Spain's state-owned airport operator (AENA), and (iii) the substitution of tourist trips abroad with domestic trips. This last factor looks like being one of the most decisive for the recovery in domestic tourism. Between July and December 2019, tourists who are resident in Spain spent 9.5 billion euros abroad compared with 18.8 billion euros on domestic tourism. According to our forecasts, this substitution effect could contribute about 2.5 billion euros to domestic tourism.

4. For a detailed description of this scenario's assumptions and the full macroeconomic picture, see the article «Economic activity begins to gradually reactivate as the lockdown is lifted», available at <https://www.caixabankresearch.com/en/economics-markets/recent-developments/economic-activity-begins-gradually-reactivate-lockdown-lifted>.



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Consequently, if our predicted recovery takes place, domestic tourism expenditure for 2020 as a whole could fall by around 30%, some 8.4 billion euros less than in 2019 mainly as a result of the stoppage of business between March and June.

On the other hand, as can be seen in the chart, our forecasts for international tourism expenditure show a somewhat less positive trend for the rest of the year due to (i) the loss of non-EU tourism, (ii) a gradual recovery in connectivity in the EU (highly dependent on air connections and the situation of the pandemic in each outbound market) and (iii) a lower propensity to travel outside the country of residence due to uncertainty about developments in the pandemic. In short, according to our estimates, spending by foreign tourists will fall by about 25% year-on-year between July and December 2020, which would result in a decline of more than 50% for the whole of 2020 (47 billion euros less than in 2019).

Tourist expenditure: domestic (left) and international (right)

Million euros



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Source: CaixaBank Research, based on data from the National Statistics Institute.

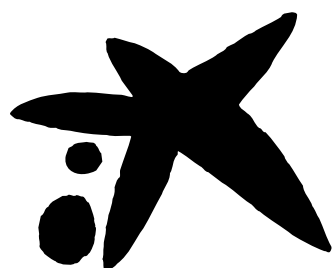
Overall, domestic tourism will not be able to offset the effect of the drop in foreign demand, which accounted for 70% of tourism expenditure in 2019 and will represent around 60% in 2020. The total tourist expenditure made by both resident and foreign tourists in Spain could be around 68 billion euros in 2020, a drop of nearly 45% compared to the previous year.

The complexity of the environment in which the tourism industry currently operates also makes it necessary to take into account the evolution of the pandemic in Spain's outbound markets, making the situation even more uncertain. As can be seen in the table, which looks at 10 of the main countries sending tourists to Spain, the health and connectivity situation seems relatively favourable. Spain's dependence on European countries, where the spread of the pandemic seems to be more under control, means that the health-related prospects of a large proportion of its international tourist demand look positive.

Only the markets on the American continent, which account for less than 10% of international tourist demand in Spain, have a clearly negative outlook. In any case, although the situation in the outbound markets is good, it is still uncertain.

Situation of the main outbound markets for

Spain's tourism industry at the end of June



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Note: (*) The charts show the growth in the number of infections per 100,000 inhabitants between 23 January and 30 June. To the right of each chart are the infections per 100,000 inhabitants for the last 7 days of June in each country. Source: CaixaBank

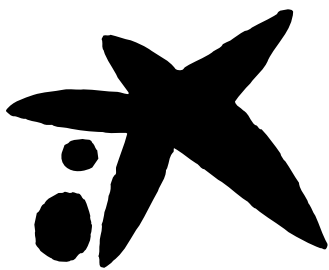
Forecasts for the medium-term trend in the tourism industry

Making projections for 2020 is extremely complex due to the high uncertainty regarding how the pandemic will evolve. However, if we focus on the medium term, and assuming an effective vaccine or treatment for COVID-19 will have been discovered within this timescale, the upswing in international tourist confidence, the increased attractiveness of established, safe destinations during the early stages of the recovery and the rebound in the global economy all point to a considerably better outlook for Spain's tourism industry than for 2020.

As the next chart shows, we predict a relatively rapid recovery in demand in the medium term. In 2021, international tourist expenditure would reach a level higher than the one achieved in 2016, albeit still far from its pre-crisis level. Nevertheless, the sector has enjoyed some extraordinary years, in 2019 beating all records in terms of tourist volumes and expenditure, so returning to the revenue levels of 2016 could be considered as very positive.

International tourist expenditure in Spain

Billion euros



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Source: CaixaBank Research, based on data from the National Statistics Institute.

In conclusion:

Tourism demand is going to plummet in 2020, mainly due to the loss of mobility of tourists between March and June.

Tourist expenditure will gradually pick up in the second half of the year, supported by domestic tourism and the arrival of international tourists from traditional outbound markets such as Germany and the UK.

The dependence of tourist flows on the health situation in Spain and in the countries of origin will be a source of uncertainty. Despite this, the medium-term outlook for the sector remains positive, thanks to the fact that its pre-crisis situation was very solid.



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