Tourism

The loss of tourism business is
The tourism industry is a key sector for Spain's economy and the decline forecast in tourism for 2020 will have a major impact on the country's level of economic activity. However, this economic impact will not be spread evenly throughout Spain as there are big differences between regions in the relative importance of the tourism sector. We expect the islands and Mediterranean communities to be more exposed than the average in Spain, while inland regions will suffer less.
at the epicentre of the crisis affecting the Spanish economy which, according to forecasts by CaixaBank Research, will see a fall in GDP of between 13% and 15%.

Tourism-related GDP in Spain

Index (100 = 2019)

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

The impact of the slump in tourism business on the Spanish economy

Due to the sharp decline in tourism expenditure expected in 2020, which we estimate at around 50% for international tourism and about 30% for domestic, the sector will no longer produce a great deal of economic activity. Specifically, according to our forecasts, tourism-related GDP will fall by around 44% in 2020, severely affecting the Spanish economy. This drop in tourism business could directly deduct 3 pp from GDP growth. Furthermore, due to the sector's strong influence on the rest of the economy, an additional 1.6 pp to 2.3 pp could be lost indirectly. In this case, the tourism sector would contribute negatively to Spain's economic growth by between 4.6 pp and 5.3 pp of GDP.

In the medium term, we expect tourism activity to return to its pre-crisis level from 2024 onwards. However, the activity level of 2017, a year which can be used as a benchmark given the good performance by tourism, could be regained as early as
1. According to our estimates, for every 100 euros of added value generated directly by the tourism sector, 76 euros of indirect added value are generated in the rest of the economy, which means that around 40% of the economic activity created by the tourism sector is indirect.

Analysis of the decline in tourism expenditure by autonomous region

In regional terms, the economic impact of the drop in tourism business in 2020 will be highly heterogeneous and depend mainly on the relative importance of foreign tourism and also on the importance of the tourism sector in each region's economy.

The following chart shows the projected variation in tourism expenditure by autonomous region for 2020. According to these estimates, the Balearic Islands will suffer the most from the drop in tourism expenditure (59%) due to their high dependence on foreign tourism (95% of expenditure) and also because a large part of their tourism demand (86% of the annual demand in 2019) is concentrated in the spring and summer months (those most affected by the COVID-19 pandemic). At the other end of the scale, Castilla-La Mancha and Aragon are the regions that will post the smallest decline in tourist expenditure due to their lower dependence on foreign tourism (14% and 24%, respectively). Obviously, these results depend considerably on how the pandemic evolves in the different regions.

Drop in tourist expenditure in 2020 in the autonomous regions

Annual change in % and contribution in percentage points
Analysis of the economic impact of the drop in tourism expenditure by autonomous region

The sector's relative importance for the region's economy is also very relevant in order to understand the economic impact of the decline in tourism, this factor also varying greatly from region to region. Since we do not have estimates of tourism's contribution to GDP per region, we have used the share of tourism expenditure to GDP to obtain an approximate measure of the tourism sector's relative weight. Using this figure, we can see that tourism is comparatively unimportant in the regions of Navarra and La Rioja (around 4% of their GDP) while its consumption accounts for more than 40% of GDP in the island communities of the Balearics and Canaries.

Map of the impact of the fall in tourist expenditure in 2020

Fall in tourist expenditure by % of GDP

Source: CaixaBank Research, based on data from the National Statistics Institute.
By combining the relative weight of tourism expenditure and our central forecast scenario for 2020, we can measure the economic impact on the autonomous regions, as seen in the map above. This shows how the slump in tourism business will be considerable in the Balearic Islands and Canary Islands, with declines in tourism expenditure representing 28% and 18% of their regional GDP, respectively. The Mediterranean communities of Catalonia, Valencia and Andalusia will see a more contained impact although still above the Spanish average, with a drop in tourism expenditure of more than 5% of GDP in all three cases. The Community of Madrid, the Region of Murcia, Cantabria and Galicia would register an average impact of between 2% and 4% of GDP while the rest of the autonomous regions would be less affected.

In conclusion:

The tourism industry will be severely affected by the health crisis caused by COVID-19, resulting in a drop in tourism GDP of about 44% in 2020. Because of tourism's prominent role in the Spanish economy, the impact of the crisis on the sector will weigh heavily on the national economy, whose growth will shrink by 5 pp this year. The impact will vary according to the region in question, with the Balearic and Canary Islands and the Mediterranean coast being particularly affected. Although uncertain, the outlook for 2021 points to a strong recovery in activity that could bring tourism GDP to levels similar to 2017.

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