

## Tourism, a new *El Dorado* for the Spanish economy

Spain has made travel and tourism (T&T) one of its key economic sectors. Over 75 million tourists came to the country in 2016, visited cities, beaches and mountains, attended sports events and professional congresses, ate, drank and enjoyed all kinds of experiences. But T&T is not the only industry to gain from their arrival. The rest of Spain's economic sectors are also benefiting from the tourism boom. Nevertheless, in the medium term it is important to encourage demand in quality T&T in order to sustain this growth. In this article, we examine this in more detail.

Both foreign and domestic T&T goods and services<sup>1</sup> (accommodation, catering, transport, travel agencies, cultural services, etc.) are making an increasing direct contribution to GDP: from 5.9% in 2010 to 6.4% in 2015. But this contribution to the economy is not limited exclusively to those subsectors most directly related to T&T. We can also see indirect or knock-on effects on other economic sectors. These come from economic activity brought about by the purchases made by the T&T sector from its suppliers. In order to meet this demand, in turn suppliers increase their purchases from their own suppliers, which also contribute to GDP. To calculate this knock-on effect, input-output tables are used for the Spanish economy by the Spanish Statistics Institute (INE) for the year 2010. This shows that, for each EUR 100 of added value generated directly by the T&T sector, an additional EUR 73 are generated indirectly by the economy as a whole. This indirect effect has increased: five years ago it was EUR 68. Tourists enjoying paella next to the beach are not only benefiting the restaurant where they are eating but also all the restaurant's suppliers, the establishment's interior designer, its accountant, etc. Logically, those services directly linked to T&T demand reap the most benefit but other sectors apparently less related to tourism also benefit, such as industry and the primary sector (see the enclosed table).

T&T's direct and indirect contribution to GDP totalled EUR 119 billion in 2015 according to the INE's Cuenta Satélite del Turismo, the equivalent of 11.1%. Around half this contribution was due to foreign tourism, which has increased its relative weight over the past few years.

Those involved directly and indirectly in T&T carry out expenditure in the rest of the economy that generates an additional induced economic effect (the private consumption of the restaurant's waiters, decorator or accountant). If we add in this contribution, which is spread even further among the different economic sectors, T&T's global impact would reach 16% of GDP in 2015, steadily increasing since 2010 and much higher than the European average (9,6%).<sup>2</sup>

The T&T industry therefore has a huge impact, especially when we take the indirect and induced effect into account as well as the direct. These figures might even underestimate the total impact of T&T on GDP as there is a growing problem with its calculation. An increasing number of T&T services are not provided by the traditional tourism sector, such as private accommodation rental and the goods and services required to provide it. Although these should be included in the calculation, the official statistics do not reflect them in their entirety and they therefore end up being underrepresented. For example, according to Exceltur, the places advertised on P2P platforms in the 22 top Spanish towns and cities totalled 362,000 in 2016, exceeding the volume of official accommodation.

### Economic impact (direct and indirect) on different sectors produced by the T&T sector per EUR 100 of added value

(Euros)

|                               |  |            |
|-------------------------------|--|------------|
| Sector with direct T&T demand | Accommodation, food and beverages            | 44.0       |
|                               | Transport                                    | 25.7       |
|                               | Retail                                       | 22.9       |
|                               | Real estate services                         | 16.8       |
|                               | Culture and entertainment                    | 4.6        |
|                               | Travel agencies                              | 5.3        |
|                               |  | <b>119</b> |
| Rest of the economy           | Primary sector                               | 2.9        |
|                               | Agrifood industry                            | 10.6       |
|                               | Energy industry                              | 4.0        |
|                               | Construction industry                        | 2.7        |
|                               | Rest of industry                             | 7.2        |
|                               | Professional services                        | 5.0        |
|                               | Financial and insurance services             | 4.5        |
|                               | Security, safety and administrative services | 2.8        |
|                               | Rest of services                             | 14.1       |
|                               |  | <b>54</b>  |
| <b>Total</b>                  |  | <b>173</b> |

**Note:** Relative shares are used in T&T demand for sectors belonging to the T&T sector. The (direct and indirect) impact of the T&T sector is higher than 100 as several T&T sectors use intermediate inputs produced by the T&T sector itself.

**Source:** CaixaBank Research, based on data from the INE.

1. The United Nations defines tourism as «the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes» INE (2004), «Cuenta Satélite del Turismo en España: Nota Metodológica».

2. See World Travel & Tourism Council (2016), «Travel & Tourism Economic Impact 2016: Spain».

T&T also creates a significant number of jobs. Directly and indirectly, T&T provided employment to 2.5 million people in 2015, 13.0% of the total jobs (1.4 pp more than in 2010). If we add in the employment created by the induced effect, then this contribution rises to 16.2% of total employment, a much higher share than the European average (9.1%).<sup>3</sup> Moreover, all the signs point to the sector continuing to create jobs. Social Security affiliation in mostly T&T-related sectors is growing at a much faster pace than in the rest of the economy. This rate was 4.7% year-on-year in April (cumulative over 12 months) while the rest of the sectors posted 3.0% growth.

It is also worth noting that T&T has helped to correct some imbalances in the Spanish economy in recent years. The rise in T&T service exports has pushed the balance of T&T services from a surplus of 2.6% of GDP in 2010 to 3.3% in 2016. This means that 11% of the current account's correction was due to the larger surplus achieved by the balance of T&T services.<sup>4</sup>

As we have seen, the T&T industry is crucial for the Spanish economy. But we should now look at external T&T demand in the medium term, essential to ensure the sector withstands the rapid social and technological changes occurring. In spite of increasing diversification, international tourist arrivals in Spain (75.6 million in 2016) are still very concentrated in terms of country of origin, type and season. External T&T demand is largely European (80% in 2016) for reasons of geographical proximity, mostly from the UK, France and Germany. Most visitors to Spain also come for leisure (85.3%) and between June and September (50%). The trend in arrivals points to increasing diversification, however. Tourist arrivals from the rest of the world are posting above-average growth (+15.3% annually). This is particularly encouraging because future increases in demand are likely to come from these markets, in particular Asia (see the article «Tourism: an important industry on the crest of a wave» in this Dossier, for an explanation of the global T&T trends). Tourist arrivals for reasons other than leisure and business, such as health or pilgrimages, rose by 22.6% and totalled 6.5 million.<sup>5</sup> Lastly, the cooler months (October to May) have posted larger annual increases in international tourist arrivals (+11.5%) than June to September (+9.5%), indicating that the T&T industry is gradually becoming less seasonal.

The record number of international tourist arrivals in 2016 led to record figures in income (EUR 77,625 million), although the average expenditure per tourist fell slightly and is lower than for our neighbouring countries such as France and Italy. There therefore seems to be some room for improvement in expenditure per tourist. But to take advantage of this, there needs to be a corresponding increase in quality and the T&T supply needs to be more diversified (as explained in detail in the article «Quality of tourism supply: the challenge of keeping the leadership» in this Dossier). Such diversification also needs to take into account the future trends in T&T demand.

T&T demand is changing and becoming increasingly segmented, even in the case of holiday tourism. Tourists demand more specific and individualised experiences and are prepared to pay more for them. The considerable ageing of the population, in particular in Europe, our main client, will also increase T&T demand by this segment. In addition to holiday tourism, health tourism could also be increased, a less seasonal industry with huge potential that makes a significant economic contribution to a wide range of sectors.<sup>6</sup>

Finally, sustainability is also crucial, both in urban and natural terms, in order to guarantee future demand. Public institutions play an important role in ensuring a balanced regulation for the industry since T&T generates both positive externalities (such as its considerable economic contribution) and negative. In the short term, the upsurge in the sharing economy, particularly in some cities, poses a significant challenge (see the article «Tourism 2.0: opportunities and challenges» in this Dossier). In the long term, an uncontrolled increase in tourism could jeopardise the natural environment. There is growing discussion on mitigating some of the negative externalities that can be produced by tourism via specific taxes. This could take the form of a tourist tax to finance specific investment in associated infrastructure, which can also be used to compensate people or areas affected by tourism. In some cases it is also seen as a means of helping to manage tourism flows, with different rates depending on the destination or time of year. We may have found our El Dorado in tourism but we must monitor and look after it to ensure its potential can be developed sustainably in economic, social and environmental terms.

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3. See World Travel & Tourism Council (2016), «Travel & Tourism Economic Impact 2016: Spain».

4. See the Focus «Dissecting the improvement in the current account» published in MR05/2017.

5. Performance was worse in terms of arrivals for business, falling slightly to 4.6 million.

6. EOI (2013), «Turismo de Salud en España».