


Tourism

Sector Report

2nd Semester 2019

Towards a higher quality, more sustainable tourism industry



**Domestic tourism:
there's no place
like home**

**International tourism
in Spain: from quantity
to quality?**

**How is Brexit affecting
tourism in Spain?**



Tourism

SITUATION AND OUTLOOK: TOWARDS A HIGHER QUALITY, MORE SUSTAINABLE TOURISM INDUSTRY

Spain's tourism industry is entering a phase of consolidation.

Growth in inbound tourism is slowing down but tourist expenditure is still rising at a good rate.

Tourism supply continues to shift towards the premium target.

The market share of higher category hotels is over 50%.

The sector's good performance is having an effect on GDP and the job market in Spain.

The tourism industry employs 2.4 million people and generated almost 14% of the country's economic growth in 2018.



2019 FORECASTS



International tourists

+2%

84 million



International tourist expenditure

+3.6%

93,100 million €



New employment

+3.4%

82,000

DOMESTIC TOURISM There's no place like home



DOMESTIC

VS.



INTERNATIONAL

SEASONALITY

41%

45%

AVERAGE STAY

3.7 days

7.4 days

AVERAGE DAILY EXPENDITURE AT HOTEL

112 €

197 €

What kind of international tourists visit Spain?

% of all tourists



Gold

Tourists with a high level of expenditure, aimed particularly at fashion, jewellery and restaurants.

5.6%



Hotel with card

Tourists who spend most of their card expenditure on hotels and restaurants, with an average stay of one week.

8.8%



Payment in cash

Tourists who usually make withdrawals. They come mainly from France, the United Kingdom and Netherlands.

11.2%



Leisure

Tourists who spend a significant proportion of their card expenditure on leisure activities and restaurants, with stays of one week on average.

8.2%



I want to get to know Spain

Tourists who stay for longer periods (14.5 days on average), visit several autonomous regions and come from further away, such as the United States.

1.6%



House in Spain

Tourists who return very frequently and spend most of their card expenditure in supermarkets. They come mainly from France and the United Kingdom.

15.8%



Short breaks and borders

Tourists who make a lot of short trips (2.5 days on average) and spend mostly in supermarkets. Common among tourists from nearby countries such as France.

20.0%



Expenditure at place of origin

Group with the lowest daily expenditure, the largest proportion of their card expenditure is on supermarket purchases and transport, with stays of 3 to 10 days. Probably paid for a package holiday with the accommodation included in their country of origin.

28.0%

Source: CaixaBank Research.

Situation and outlook

Towards a higher quality, more sustainable tourism industry

The first few months of 2019 seem to confirm the positive tone of the sector in Spain, consolidating the excellent inbound tourism figures of recent years. While growth in the number of tourists visiting Spain is slowing down, their expenditure is still increasing significantly. The challenge is how to sustain these trends, redirecting tourism supply towards higher quality segments.

After the recent boom in tourism, of 2018 growth of international tourism slowed down in all regions of the world, with the exception of the Middle East where it increased substantially. Nevertheless, the number of international tourists reached 1,403 million in 2018, 5.6% more than in 2017. Although this growth is still notably high, the moderation in tourist arrivals indicates the sector has entered a more mature phase in most regions. The World Tourism Organization (UNWTO) estimates that growth in global tourism will remain dynamic in 2019 at around 3.5%, a figure closer to the growth potential estimated by the UNWTO itself.¹

① The UNWTO estimates that potential growth will decrease from 3.8% in 2019 to 2.5% in 2030. See UNWTO, «Tourism Towards 2030, Global Overview».





Tourism

Spain consolidates its ranking as the world's second biggest tourist destination

For Spain, the trend in the sector was very similar to the global situation. In 2018, 82.8 million tourists visited Spain, 1.1% more than in 2017, once again an all-time record for tourist arrivals. Spain has therefore remained the world's second biggest tourist destination in terms of tourist arrivals, only behind France and ahead of the United States.

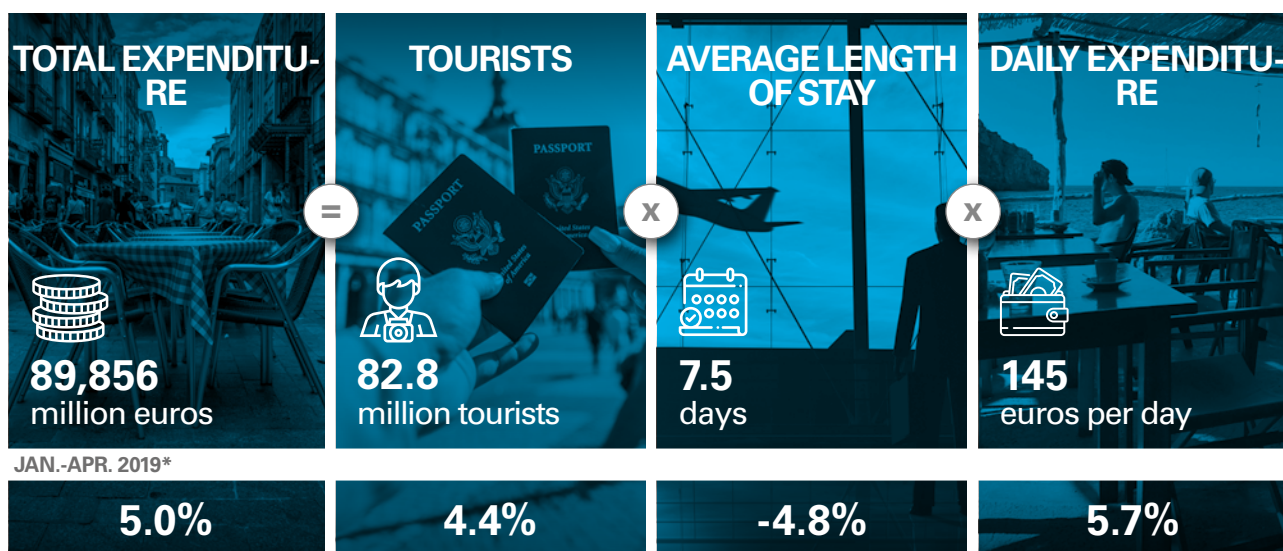
Despite the fact that the data are clearly positive, as in the case of global tourism there are also signs of a slowdown in growth in the number of visitors for Spain's tourism industry compared with recent years. One clear reflection of this trend is the modest rise in the number of overnight stays by foreign tourists, up by just 0.4% year-on-year until April. This is mainly because some temporary but favourable factors have disappeared, such as geopolitical instability in some Mediterranean countries that compete with Spain, such as Egypt, Tunisia and Turkey, as well as the phenomenon of Brexit,² which affects a very important group for the Spanish tourism market, namely UK tourists.

This moderation in the growth rates of tourist arrivals indicates the sector is beginning to consolidate its good performance. The sector is managing to maintain the exceptional numbers of inbound tourism observed in recent years, while expenditure by international tourists³ continues to grow at a good rate (until April, this was 5.0% higher than the same period in 2018). This improvement in tourism expenditure, which far exceeds the increase in the number of foreign tourists, is supported by the increase in daily spending, up by 5.7% between January and April compared with the same period last year. Part of this increase comes from changes in the composition of the tourism received by Spain, and especially because of the

^② For more information, see the article «How is Brexit affecting tourism in Spain?» in this Sector Report.

^③ Equivalent to the tourist revenue recorded in the Balance of Payments, which does not include expenditure at origin.

Expenditure by international tourists visiting Spain is increasing more than arrivals



Note: (*) Cumulative year-on-year change up to April.

Source: CaixaBank Research, based on data from the Spanish Statistical Office.

larger share of tourists with a greater spending capacity, such as Americans, whose number grew at a remarkable rate of 17.5% year-on-year until April. On the other hand, the number of tourists from the United Kingdom stabilised (+0.1% until April), a kind of tourism generally more inclined towards tourist packages and which, consequently, tends to spend less at their destination.

According to CaixaBank Research forecasts, in 2019 the number of tourists visiting Spain will grow by 2.0%, reaching once again an all-time high

Looking ahead to 2019 as a whole, we expect the stabilisation of inbound tourism observed in 2018 to continue, both because of the slower growth in international tourism and because of the recovery of other international tourist destinations which will become more competitive and attract tourists from Europe. CaixaBank Research expects tourist arrivals to grow by 2.0% over the year as a whole, totalling 84 million people, yet another record for arrivals. Visitors from outside Europe (and especially Americans), totalling about 3.2 million tourists, will be the main contributors to the increase in the number of tourists in Spain. The British will remain the country's main group with 18.7 million people, although this figure will not increase compared to 2018. We therefore expect tourism expenditure to continue increasing faster than the number of visitors in 2019 (3.6% compared with 2018), reaching 93.1 billion euros.

Spain's popularity as a tourist destination on Google continues to grow in the United States

Naturally, the high season will be decisive for the good performance of the sector this year. According to CaixaBank Research forecasts, between June and September Spain will receive 38.1 million tourists, 1.2% more than in the same period in 2018. If our analysis also includes the dimension of country of origin, one very useful tool for studying the intention to travel among foreigners in different countries are the tourism-related Google searches carried out in these countries.

Google Trends shows that tourism in Spain is still a very popular search among the main countries of origin, suggesting the trends observed in 2018 have continued. Specifically, in recent months Google searches related to tourism in Spain made by people from Argentina, Portugal, Italy and, above all, the US, continued to be very strong, so it is likely that visits from these countries will remain dynamic. On the other hand, in recent months Google searches related to tourism in Spain have lost some of their popularity in northern European countries such as Germany, the United Kingdom and Netherlands.



Popularity of Spain as a tourist destination in Google searches



Source: CaixaBank Research, based on GoogleTrends.

Domestic tourist expenditure has also boosted the sector and will continue to do so

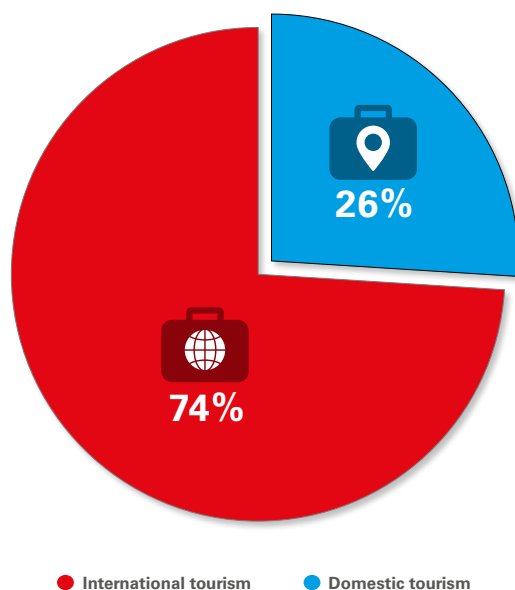
While international tourism represents a major source of income for the tourism industry, it is not its only support. As can be seen in the following chart, more than a quarter of tourist expenditure in Spain comes from resident visitors.⁴

Expenditure by resident visitors has also been very dynamic, growing considerably in recent years with increases of 6.4% and 3.4% in 2017 and 2018, respectively. This has been driven both by an increase in the number of trips made (1.0% in 2018) and an increase in average daily expenditure per person (5.2% in 2018). On the other hand, the length of stay has decreased slightly. In other words, Spanish residents are making more trips within the country and are spending more per day, although these trips tend to be shorter.

⁴ For more details on the composition of domestic tourism, see the article «Domestic tourism: there's no place like home» in this Sector Report.

Tourist expenditure in Spain

% of total



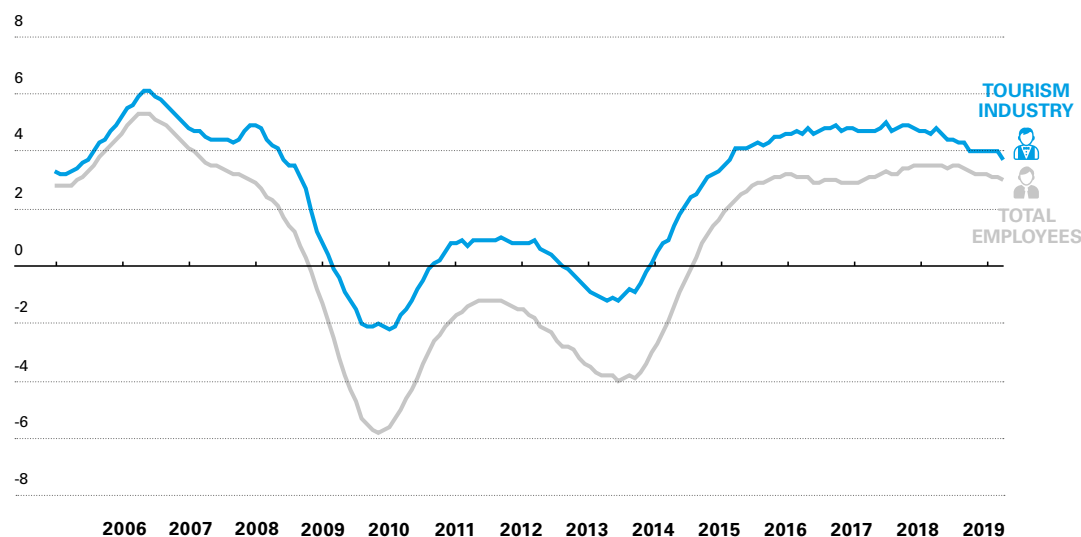
Source: CaixaBank Research, based on data from the Spanish Statistical Office.

In the future, it is likely that domestic tourism will continue to perform well, although its growth is slightly more contained than in recent years, in line with the moderation in the growth of economic activity in Spain.

This positive trend in the tourism industry is having an effect on the labour market. In 2018, the sector employed 2.4 million people, 12.8% of the economy's registered employment. Nevertheless, the trend in tourism employment had slowed down slightly, the number of employees growing by 4.0% compared

Employment in the tourism industry is growing faster than the economy as a whole

Year-on-year change, 12-month moving average (%)



Source: CaixaBank Research, based on data from the Ministry of Labour, Migration and Social Security and Turespaña.



Tourism

with 2017, 0.7 pp less than the previous year, in line with the slowdown in inbound tourism. Even so, this growth created over 92,000 new jobs. In the first quarter of 2019, the growth rate was still strong with a year-on-year increase of 3.4%, boosting the Spanish labour market as a whole which grew by 2.9%. In this respect, it is worth noting that 16.1% of the new jobs created in Spain in the past year have come from the tourism industry.

In 2019, we expect the rate of growth in tourism-related segments to be somewhat lower than in recent years, in line with tourism demand. However, this will not prevent the sector from continuing to create a large amount of employment, around 82,000 jobs.

The tourism industry continues to shift towards providing more premium products and services

The industry is currently transforming its products and services, shifting towards higher quality tourism. The data show larger growth in the expenditure by international tourists than in their numbers, resulting in higher expenditure per visitor. It is vital to support this trend in order to reinforce the sector's profitability, given the likely stabilisation in inbound tourism.

The tourism industry has therefore continued to invest in improving its infrastructures, directing business towards more premium products and services. The trend in superior category hotels (4 and 5-star) is still strong with over half the market share and, in April, accounting for 52.3%⁵ of the total market, 3.6 pp more than five years ago. In contrast, the supply of hotel rooms in the other categories recorded a decline in terms of market share, given the limited growth in the number of rooms offered by these categories (0.6% year-on-year in April).

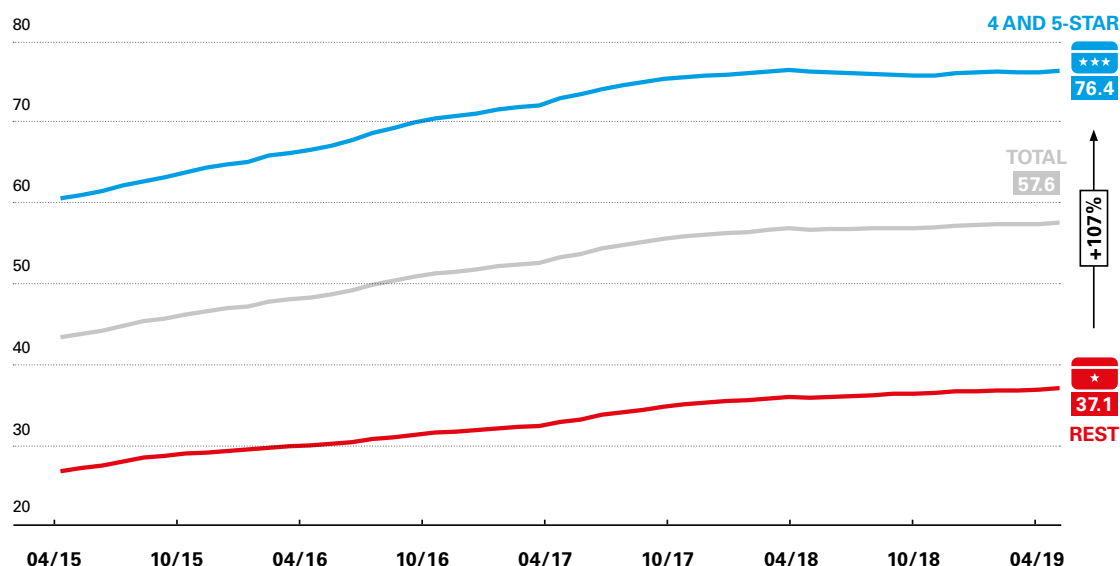
However, it is not only supply that is shifting towards the premium range but also demand. The occupancy rates for higher category hotels have remained above the sector average, reaching 64.1% in April compared with 52.3% recorded by the other categories.

As already noted, the main result of this shift is improved profitability for the sector. The main indicator for profitability, the Revenue Per Available Room (RevPAR), reached 56.6 euros in April, 1.6% more than in the same period last year, thanks to the larger share of higher category hotel rooms (RevPAR 76.4 euros) to the detriment of hotel rooms in the other categories (RevPAR 37.1 euros).

⁵ Data on hotel rooms, occupancy and profitability (RevPAR) are analysed using 12-month moving averages in order to filter out potential seasonal and calendar effects that alter the analysis.

Revenue from higher category hotel rooms is twice that of other categories

RevPAR * (euros)



Note: (*) Revenue Per Available Room.

Source: CaixaBank Research, based on data from Bloomberg.

Spain's tourism industry contributed almost 13.6% to GDP growth in 2018

Within a broader context, these figures are far from trivial; in fact, they are extraordinarily relevant, not only for the tourism industry but also for the Spanish economy as a whole. According to the latest data from Spain's National Statistics Institute (INE), the tourism sector represents around 11.7%⁶ of the national GDP. Given this high percentage, we can conclude that the sector's performance has an impact on the country's economy, both directly and indirectly. According to our estimates, the tourism sector has a knock-on effect of 63%; i.e. for every 100 euros of added value generated directly by the tourism sector, for the economy as a whole it indirectly generates an additional 63 euros, a very high figure.

Another way to quantify the importance of the Spanish tourism sector is to evaluate its contribution to the GDP of the economy as a whole. Taking into account both its direct and knock-on effect on the economy as a whole, we conclude that the sector contributed 0.4 pp to GDP growth. In other words, 13.6% of Spain's GDP growth has come from the tourism industry.

It is therefore evident that consolidating tourism's good performance is of vital importance for the Spanish economy as a whole. The data suggest the sector will remain dynamic although it is beginning to stabilise and demand is unlikely to grow as much as in recent years. Given this situation, the main challenge continues to be sustainability and it is also vital to continue shifting the focus of its supply to attract higher quality tourist segments.

⁶ Data from the *Cuenta Satélite del Turismo*, produced by the Spanish Statistical Office.



Trend and outlook

Domestic tourism: there's no place like home

International tourism tends to be the main focus of attention when we talk about Spain's tourism industry. However, domestic tourism also plays an important role: Spaniards travel more than 175 million times a year within Spain and generate an associated tourist expenditure of 30,000 million euros.¹ In this article, we examine the recent trends in Spain's domestic tourism and discuss the main differences between domestic and international tourists.

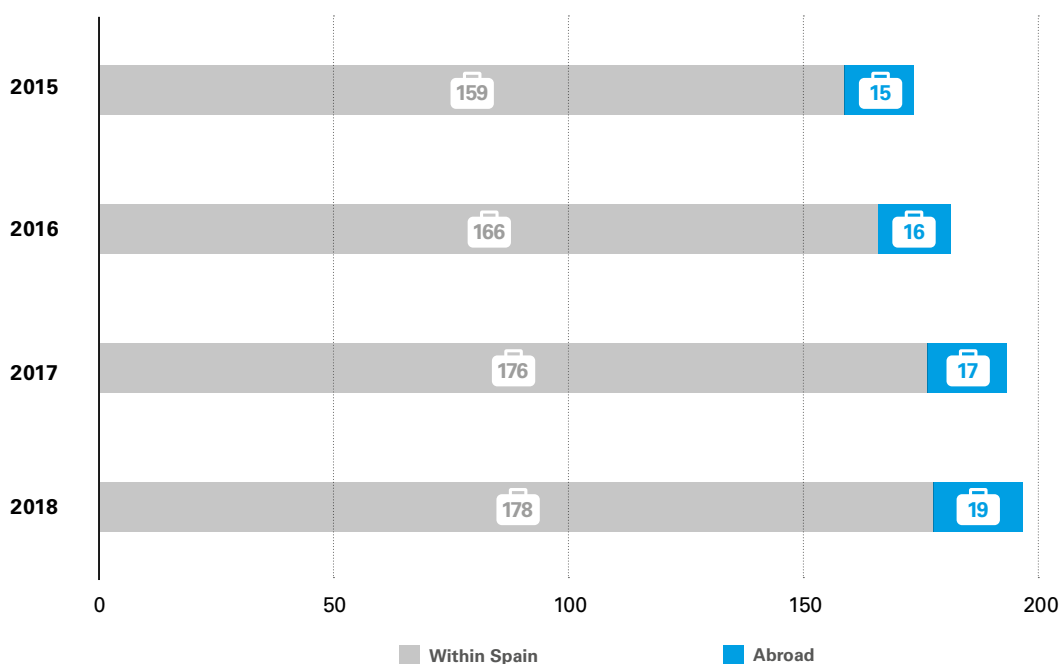
Recent trends in domestic tourism

The vast majority of tourist trips by people resident in Spain (both Spanish and other nationalities) are made within the country. In fact, they account for 90% of all the trips they make. However, trips abroad have become more popular in recent years, reaching annual growth rates of 10% in 2017 and 12% in 2018, well above the growth in domestic tourism, which rose by 1% in 2018 compared with the previous year.

¹ A trip is considered to be any journey made to a main destination outside the person's customary zone of residence that entails at least one overnight stay outside this zone.

Trips

Millions



Source: CaixaBank Research, based on data from the Spanish Statistical Office.



Several factors influence the decision to travel abroad or within Spain, the main one being the trend in the domestic economy in general and employment in particular, especially in the case of foreign travel.

Domestic tourism is therefore less sensitive to employment trends than international tourism. In other words, when the domestic economy improves, trips abroad increase more than trips within Spain. Specifically, we have estimated that a 3.1% rise in employment in Spain, similar to that observed in 2017 and 2018, would be associated with a 0.9% increase in travel within Spain.

However, there are other factors that have boosted foreign travel, such as lower transport costs (especially flying), improved air communications between Spain's major cities and those of other countries, and a shift in preference among consumers, especially the youngest segment, towards more exotic and distant destinations.

Tell me where you're staying and I'll tell you how much you spend

In order to determine how much is spent by domestic tourists, we simply need to know what kind of accommodation they are staying in and the type of transport they have used to reach their destination. This gives us a very good picture of the type of tourist in question, in terms of the expenditure that will be made.

Specifically, the main factor that lies behind whether a domestic tourist spends more or less is their accommodation, accounting for 56% of the variability in expenditure. Specifically, hotel tourists tend to spend the most on average per day, more than three times as much as tourists staying in other types of accommodation.²

The second factor in order of importance is the means of transport, accounting for 20% of the expenditure. By far the most popular way to travel is driving or flying and the average daily expenditure of tourists using these two modes of transport is higher than the expenditure of those using other types, such as the train or bus. Specifically, in 2018, tourists who travelled by air spent 97.7 euros per day on average while those travelling by car spent 65.3 euros.

² Tourists staying in hotels spend 111.2 euros per day on average, compared with 34.5 euros spent by tourists staying in other types of accommodation (rented, own property, owned by relatives or friends, rest of commercial accommodation and rest of non-commercial accommodation).



Tourism

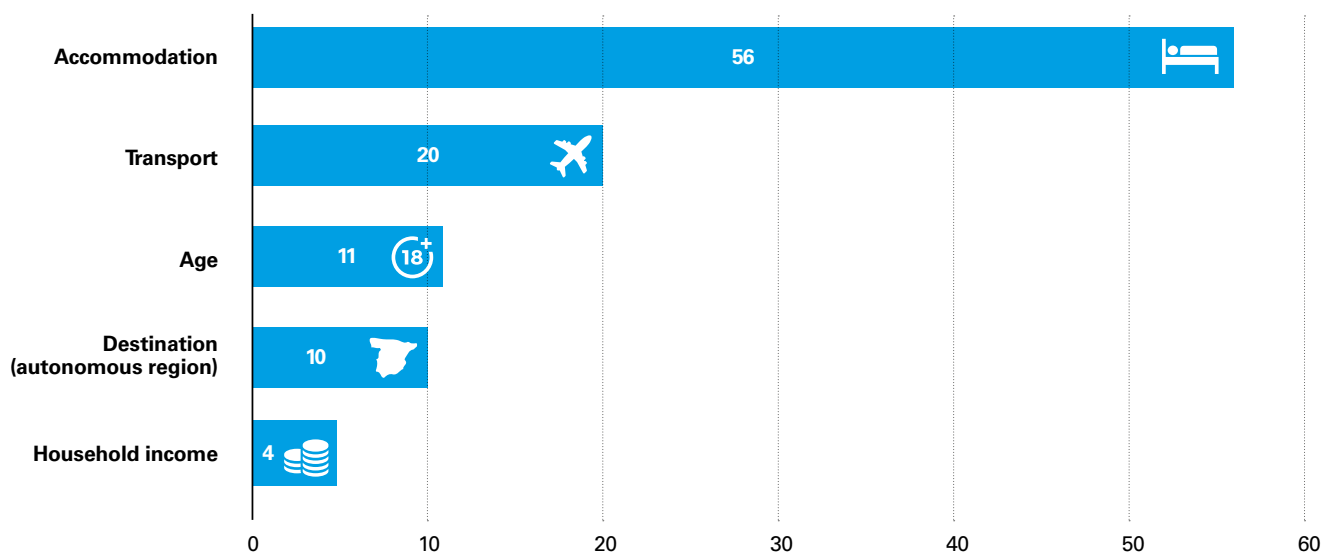
Accommodation, transport and destination are some of the factors that most influence tourist expenditure. The average daily expenditure of tourists staying at hotels, for example, is three times that of tourists staying in other types of accommodation

While the means of transport and type of accommodation are key factors in predicting a tourist's spending, other factors also influence their spending pattern, such as age, which accounts for 11% of consumption. Specifically, the 45-64 age group has the highest daily expenditure, with 52.8 euros per person per day, while those aged over 65 spend the least (34.7 euros per person per day) as they tend to travel more in the off season when prices are lower and a larger proportion of them stay in second homes compared with the other age groups.

Another prominent factor in explaining tourist spending patterns is the autonomous region of destination, which accounts for 10% of expenditure. Just as not all tourists are the same, neither are Spain's tourist destinations. Specifically, the Balearic Islands, Madrid and Canary Islands are the regions where tourists spend the most per day, while Castilla y León and Castilla-La Mancha have the lowest expenditure rates.

Main factors behind resident tourist expenditure

Share of each factor (%) *



Note: (*) % of the variation in tourist expenditure explained by each factor. 2018 data.
Source: CaixaBank Research, based on data from the Spanish Statistical Office.

What are the differences between domestic and international tourism?

SEASONALITY

One notable difference between international and domestic tourism is related to seasonality. Domestic tourism is less seasonal and this a vitally important aspect for the sustainability of the tourism industry and labour market, given that high seasonality tends to promote temporary employment which, in the case of Spain, accounts for 25.9% of all employment contracts, the highest in the European Union.³

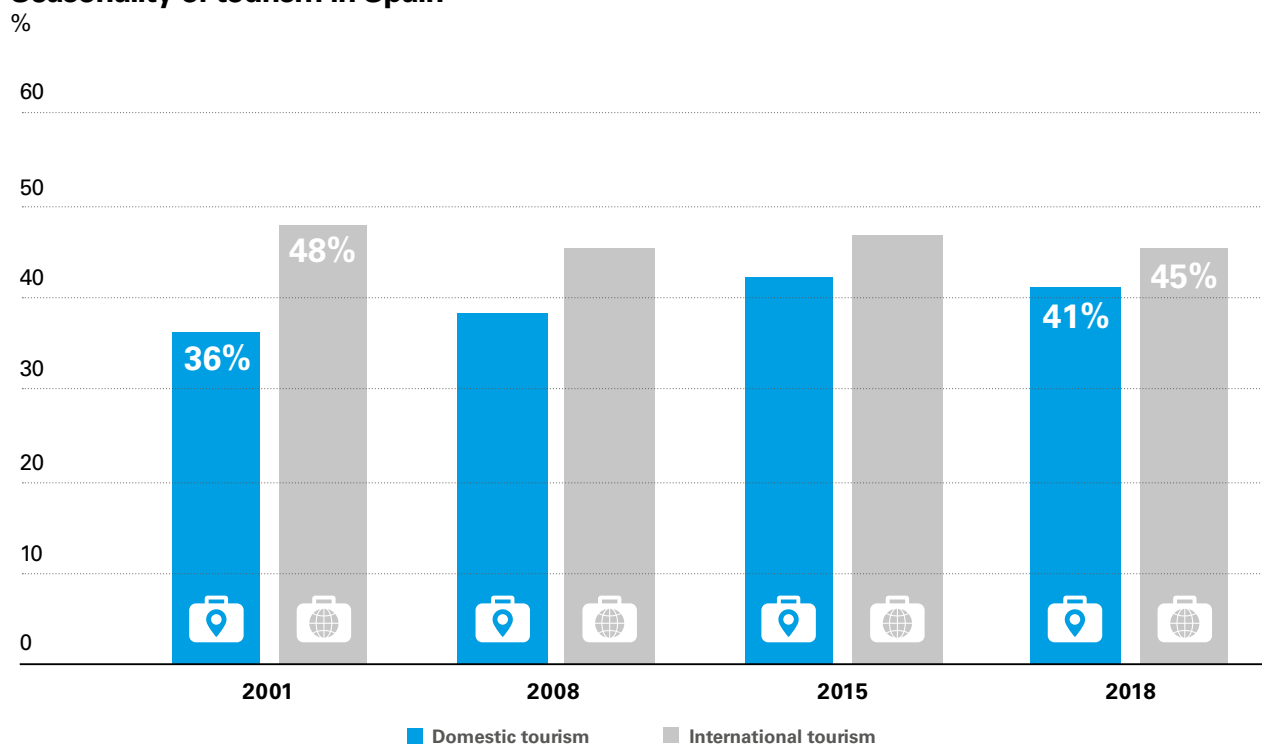
③ See «How can big data make the tourism industry more sustainable» in the Tourism Sector Report of January 2019.

In recent years, however, domestic tourism has become slightly more seasonal. Specifically, the percentage of trips made by residents in the summer season (June to September) rose from 36% in 2001 to 41% in 2018. This increase in seasonality has not occurred in the case of international tourism, narrowing the gap in seasonality terms between international and domestic tourism, as shown in the chart.

AVERAGE STAY

Another notable difference between domestic and international tourism lies in the average duration of the trip. Foreign tourists spend an average of 7.4 days in Spain while domestic tourists have shorter stays (3.7 days on average) but travel more often. As you would expect, since domestic tourists do not need to travel so far, the cost per trip is lower. Specifically, domestic tourists spend an average of 174 euros per trip compared with 1,086 euros for foreign tourists.

Seasonality of tourism in Spain



Note: Numbers of tourist visits in the period June-September out of the total for the year.
Source: CaixaBank Research, based on data from the Spanish Statistical Office and Turespaña.



Tourism

AVERAGE DAILY EXPENDITURE

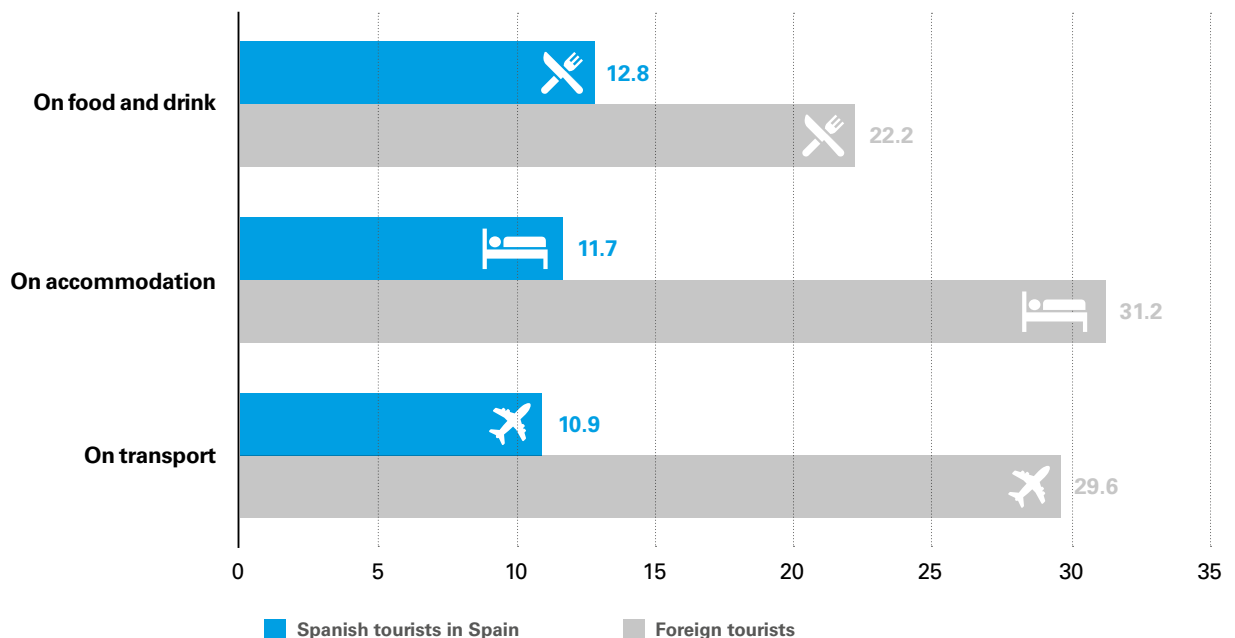
The shorter trips made by domestic tourists is the main reason why they spend less but not the only one: their daily expenditure is also lower. In fact, domestic tourists spend 48 euros a day on average compared with the 146 euros spent by international tourists.

Logically, much of this difference can be explained by the fact that international tourists spend more on transport. However, they also spend more on accommodation and food. This is partly due to the fact that a larger proportion of international tourists stay at hotels and hotel tourists tend to spend more on these concepts. In fact, if we compare the average daily expenditure of hotel-based domestic and international tourists, the gap narrows: domestic tourists staying at hotels spend an average of 112 euros compared with the 197 euros spent by international tourists.

In short, compared with international tourism, domestic tourism is less sensitive to employment trends, is less seasonal, with shorter stays and lower daily expenditure.

Average daily expenditure per person

Euros



Source: CaixaBank Research, based on data from the Spanish Statistical Office.

Debate

International tourism in Spain: from quantity to quality?

The recent boom in Spain's international tourism is having a very positive impact on the growth of the economy and of employment. However, it also has repercussions for the resident population that are not always positive, such as greater congestion due to the larger influx of tourists in certain parts of Spain. This has rekindled the debate on the need to move towards higher quality tourism.

What do we mean by quality tourism?

Quality tourism is often associated with tourist expenditure. However, the definition of quality is undoubtedly much broader and includes environmental sustainability which depends, among other factors, on the degree of geographical spread or concentration, and the capacity to create good quality jobs carried out by better trained workers on more permanent contracts, a factor which is influenced, for instance, by the degree of seasonality.¹ Below we examine the trends in Spain's international tourism for each of these factors.

① Tourism can also have an impact on the price of some services, such as housing. For more information, see the article «Rent is on the rise in Spain» in the Real Estate Sector Report, 2nd Semester 2019

Quality tourism is not mass tourism; it is more geographically spread and less seasonal, capable of creating good quality jobs that are more permanent and carried out by better trained workers

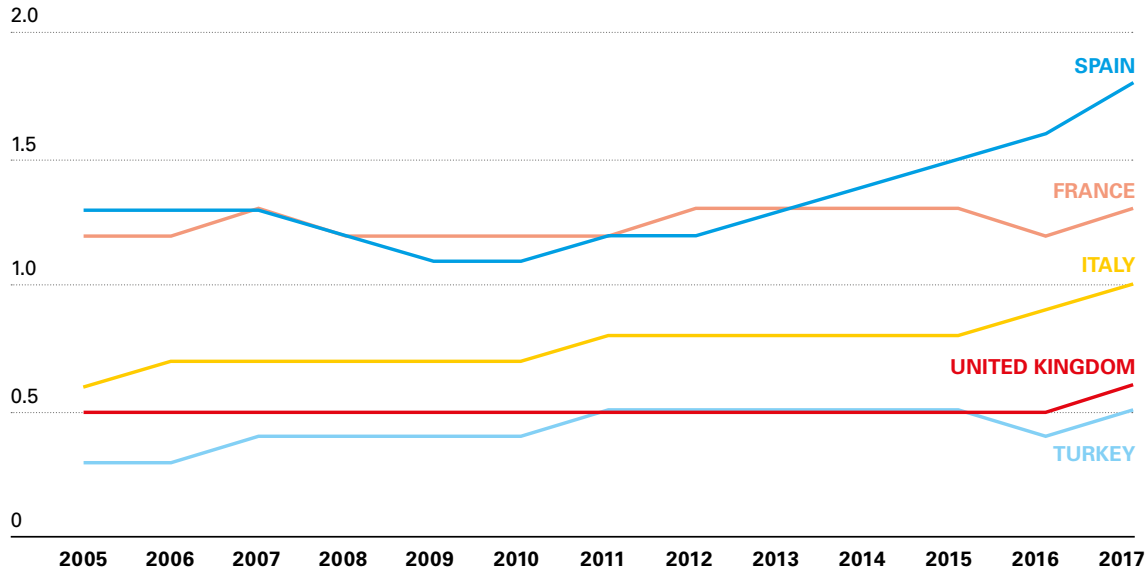




Tourism

Tourism concentration

Index



Note: Number of foreign visitors divided by the population.

Source: CaixaBank Research, based on data from the World Bank.

Spain is one of the countries that receive the most tourists in proportion to the resident population; in cities such as Madrid or Barcelona there are four times more tourists than inhabitants

Geographical concentration

Worldwide, Spain is second in terms of inbound tourism, only behind France which received 86.9 million tourists in 2017. However, these absolute figures are not a good indication of how concentrated the country's tourism might be, something which becomes clearer when we relate this figure to the number of inhabitants in each country. As a result, we can see that Spain's tourist concentration is very high, to the point that the number of international tourists coming into the country almost doubles its resident population.

If we compare this figure with that of other countries, we can see that Spain is one of the countries that receive the most tourists in terms of its number of inhabitants. While the annual number of hotel visitors does not exceed the national population in Italy, the United Kingdom or Turkey, it is the opposite situation in France and especially in Spain, as shown in the chart.

Spain receives a considerable number of tourists, especially when compared to its population, but another important factor to take into account is the geographical distribution of this tourism. The consequences are quite different when all these tourists are concentrated in one city rather than spread throughout a region.



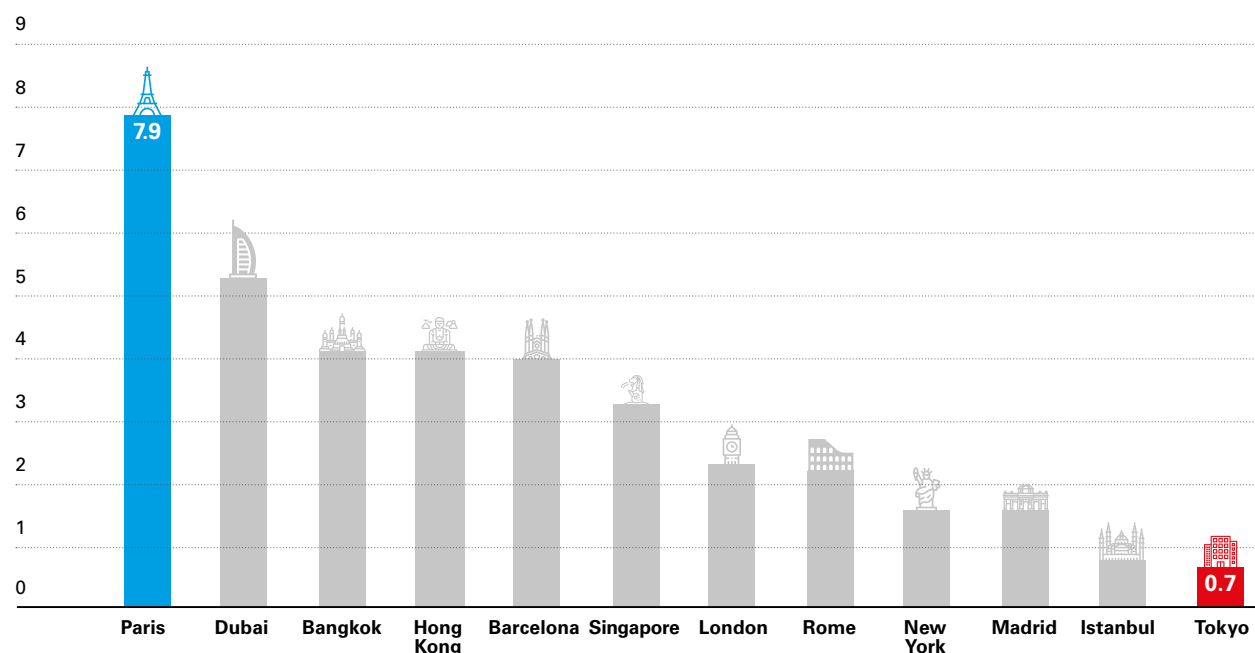
In this respect, although tourism has grown throughout Spain there are some areas, especially large cities, that have experienced a large proportion of the tourism growth observed in recent years.

Specifically, in the past 12 years, tourist arrivals² in Madrid and Barcelona have gone from representing twice their population to quadrupling it. The ratio of tourist arrivals to the resident population in Barcelona is one of the highest among the world's major cities, greater than cities such as Singapore and London and only behind Paris, Dubai and Hong Kong. Similarly, Rome and New York have fewer centres of concentrated tourism than Barcelona, measured in terms of tourist arrivals compared with the resident population.

② Number of international tourists. Source: Euromonitor International.

Concentration of major tourist destinations

Index



Note: Number of tourists divided by the population, 2018 data.

Source: CaixaBank Research, based on data from Euromonitor International.



Tourism

Over the next few years, given that the large number of tourists visiting Spain should consolidate, the concentration of tourism in Spain's major cities will probably remain at a similar level³. Consequently, efforts should continue to focus on designing strategies to optimise the geographical distribution of tourists in an attempt to reduce large concentrations at certain locations or cities.

③ See the article «Towards a higher quality, more sustainable tourism industry» in this Sector Report for more details on tourism forecasts.

Seasonality

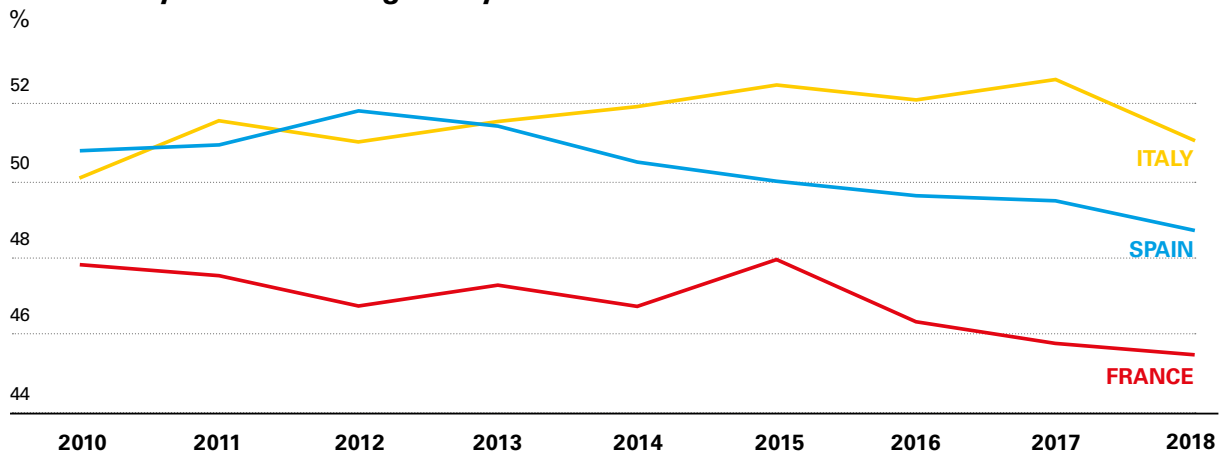
Another important factor in the definition of quality tourism is related to its seasonality; i.e. the fluctuation in inbound tourism throughout the year.

Historically, tourism in Spain has focused mainly on sun, sea and sand as is therefore seasonal by definition. Even today, almost half the tourists visiting Spain do so in the summer months. This high seasonality has an impact on the labour market as it leads to a large number of temporary jobs, as discussed below. But, in addition, to satisfy the peaks in demand during the high season, infrastructures are also created whose potential is not exploited in the off season.

Although Spain's tourism is very seasonal, and more so than in countries such as France, this has decreased slightly in recent years with the result that the country's tourism is now less seasonal than Italy's, as can be seen in the chart. However, in spite of this positive trend, seasonality is still a problem that needs to be tackled by the tourism industry, which is why it is vital to continue focusing on less seasonal segments such as business or gastronomy tourism, on diversifying tourism products and services and on boosting the loyalty of tourists coming to Spain.

Although seasonality has declined in recent years, it is still a problem that needs to be tackled by Spain's tourism industry

Seasonality of hotel overnight stays



Note: Percentage of overnight stays between June and September compared with the annual total.
Source: CaixaBank Research, based on data from INSEE, INE and ISTAT.

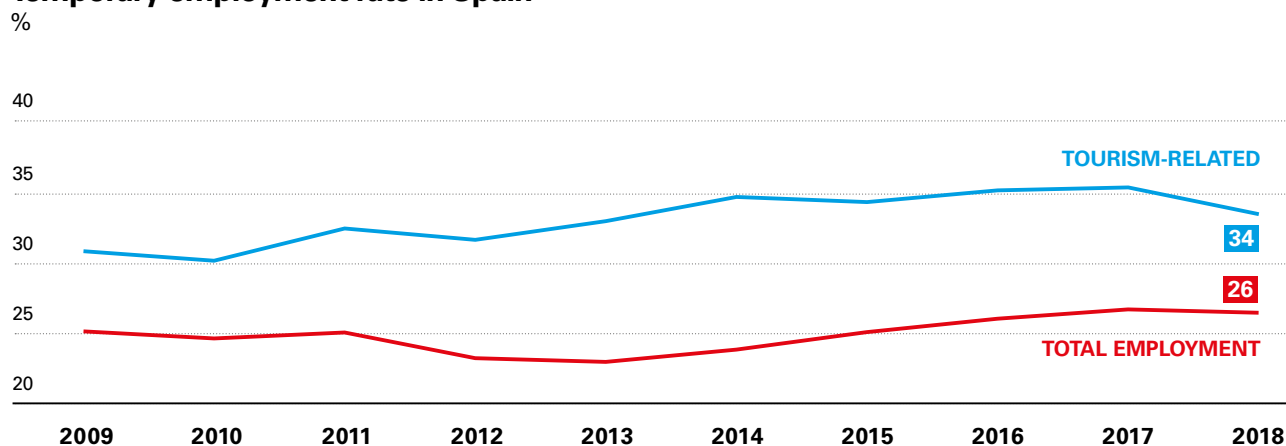
Employment

Quality tourism is also tourism that is capable of creating good quality jobs. In this respect, there are several factors that can affect the quality of employment, such as how overqualified the workers are, the type of employment contract and also wages.

Quality tourism is capable of creating good quality jobs

As we have already seen, Spanish tourism is highly seasonal and this results in a large number of temporary jobs. Specifically, the temporary employment rate for the tourism sector is 34%. Moreover, while tourism has become less seasonal in the past five years, the temporary employment rate has remained more or less constant.

Temporary employment rate in Spain



Source: CaixaBank Research, based on data from Turespaña.

Another factor affecting the quality of employment is the share of part-time jobs compared with the total (the part-time rate). In the case of the tourism industry, this figure is close to 25%, well above that of the economy as a whole (15%).⁴ Apart from this part-time rate, it is also significant that half the sector's part-time workers are involuntarily; i.e. they would like to work full time.

⁴ 2018 data.

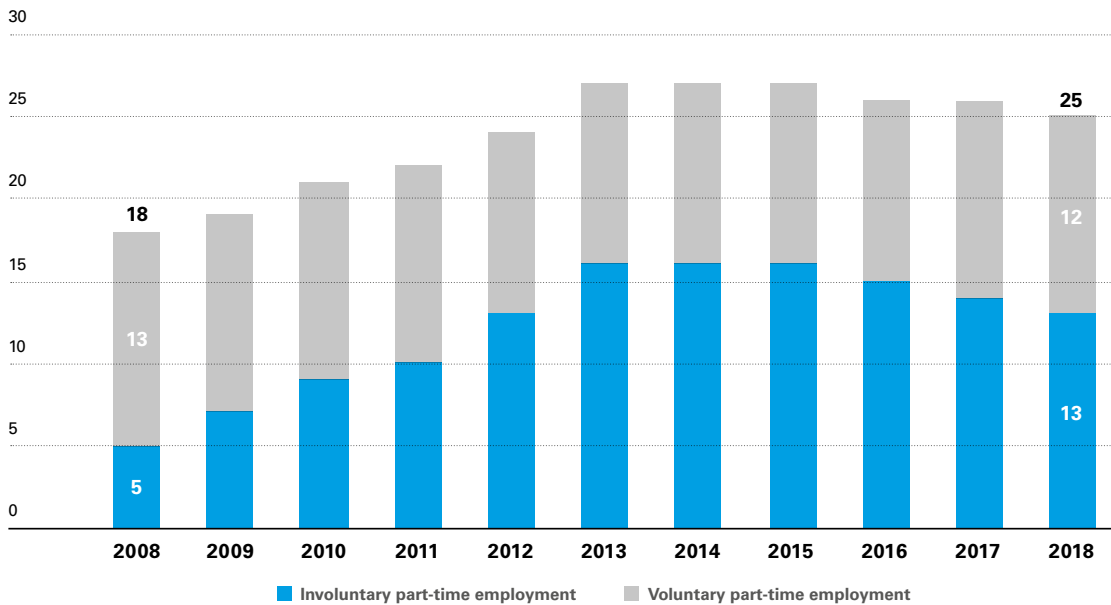
However, the share of involuntary part-time employment compared with all employment, now standing at 13%, has followed a downward trend in recent years. There is still a long way to go to reach levels close to those recorded before the economic crisis (5% in 2008) but this gradual descent in the involuntary temporary employment rate in recent years should be viewed positively.



Tourism

Part-time employment in the tourism industry

% total employment





Source: CaixaBank Research, based on data from the Spanish Statistical Office (Labour Force Survey).

Labour productivity is also an important factor to ensure good quality employment. Spain's hotel sector has a positive record, with its labour productivity almost 20% higher than the average for the European Union (EU). Much of this higher productivity is due to company size. Labour productivity figures show that large tourism companies tend to be 30% more productive than small enterprises. Since Spain has a greater proportion of large companies than the European average, the country's labour productivity is also higher than the EU.



Matching workers' qualifications to job requirements, tourism industry and total economy

% total employees

		 Theoretical requirements of the job		
		Basic	Intermediate	Advanced
		Tourism industry		
 Educational level	Primary	5.2	0.8	0.3
	Secondary	51.3	12.2	2.7
	Higher education	13.8	8.6	5.3
		Total economy		
	Primary	3.6	1.5	0.1
	Secondary	30.9	18.6	1.9
	Higher education	7.4	15.3	20.7

Note: Q1 2019 data. Workers aged between 15 and 65 are classified according to the level of education attained and the theoretical training requirements for each occupation. Blue indicates an appropriate match, yellow a moderate match and red a bad match.

Source: CaixaBank Research, based on data from the Spanish Statistical Office (Labour Force Survey).

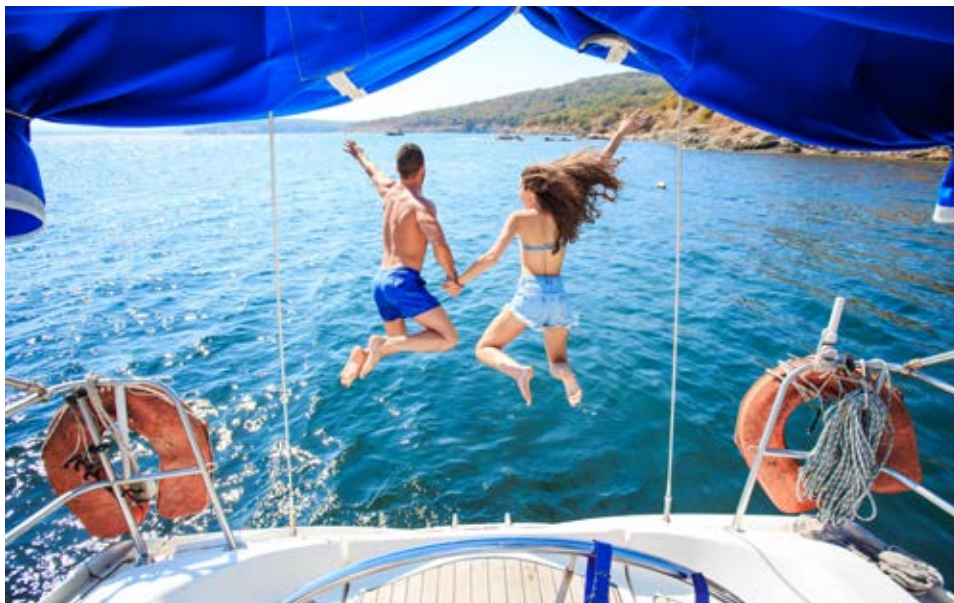
Nevertheless, the higher labour productivity of Spain's tourism industry is not only due to company size, since small Spanish companies are also more productive than their European counterparts.

Finally, a good quality job is one in which, ideally, there should be a good match between the employee's qualifications and the skills required by their job. In the tourism industry, a large proportion of workers have a higher level of education than that required by the job they do. As can be seen in the table, 13.8% of tourism jobs requiring basic knowledge are carried out by people with a higher level of education, denoting a high degree of overqualification, especially compared with the economy as a whole, namely 7.4%.

Expenditure and profitability

Last but not least, quality tourism must also be associated with greater profitability. In Spain, tourism revenue increases year after year, totalling 62,481 million euros in 2018. Much of this growth is due to the significant rise in the number of tourists in recent years. However, another not inconsiderable part can be explained by the higher expenditure of tourists visiting Spain.

Specifically, the increase in average daily expenditure per tourist lies behind one third of the increase in total tourist expenditure over the past three years. The average expenditure per person reached 145.3 euros per day in 2018, an increase of 12% over 2016.



Tourists visiting Spain are spending more and more: the average expenditure per person reached 145.3 euros per day in 2018, 5.4% more than the previous year









It is worth noting that Spain receives many different types of tourist with very different patterns of behaviour, so the overall figures are not enough to determine the type of tourism we receive. An analysis of payments made using foreign cards at CaixaBank payment terminals allows us to establish eight categories of tourist according to their type of expenditure, duration of trip, nationality and propensity for different expenses, as shown in the table below.

The category that stands out for its higher average expenditure per trip is «Hotel with card», which includes those tourists for whom most card payments are spent on their hotel and restaurants. The majority come from France and the United States and their average stay is usually one week. Similarly, the group of tourists classified as «I want to get to know Spain» also have a high average expenditure, especially on restaurants. This group includes those tourists who make longer trips, of approximately two weeks, since they come mainly from America and take the opportunity to visit several autonomous regions while in Spain.

At the other end of the scale is the «Expenditure at place of origin» group, which are those tourists with the lowest average expenditure per trip. This category includes tourists with an average stay of between 3 and 10 days who spend mostly on transport and restaurants and probably paid for their hotel in their own country.

The other notable group at this end of the scale is classified as «Short breaks and borders», with a low average expenditure per trip due mainly to the short duration. This group is mainly made up of French tourists who visit Spain often and tend to use their cards mostly to pay in establishments that sell food products.

Types of international tourist visiting Spain by their expenditure

Group	Description	Level of daily expenditure	% of all tourists
 Gold	Tourists with a high level of expenditure, aimed particularly at fashion, jewellery and restaurants.	High	5.6%
 Hotel with card	Tourists who spend most of their card expenditure on hotels and restaurants, with an average stay of one week.	High	8.8%
 Payment in cash	Tourists who usually make withdrawals. They come mainly from France, the United Kingdom and Netherlands.	Medium/High	11.2%
 Leisure	Tourists who spend a significant proportion of their card expenditure on leisure activities and restaurants, with stays of one week on average.	Medium	8.2%
 I want to get to know Spain	Tourists who stay for longer periods (14.5 days on average), visit several autonomous regions and come from further away, such as the United States.	Low/Medium	1.6%
 House in Spain	Tourists who return very frequently and spend most of their card expenditure in supermarkets. They come mainly from France and the United Kingdom.	Low	15.8%
 Short breaks and borders	Tourists who make a lot of short trips (2.5 days on average) and spend mostly in supermarkets. Common among tourists from nearby countries such as France.	Low	20.0%
 Expenditure at place of origin	Group with the lowest daily expenditure, the largest proportion of their card expenditure is on supermarket purchases and transport, with stays of 3 to 10 days. Probably paid for a package holiday with the accommodation included in their country of origin.	Low	28.0%

Source: CaixaBank Research.

With regard to the trend in the composition of tourists visiting Spain, the analysis carried out seems to indicate that there have been no substantial changes in the volume of tourists in each group in the past three years; i.e. in general terms, the composition of tourists shows no obvious signs of change.

In conclusion, Spain now faces the challenge of consolidating a sustainable tourism model and reinforcing its value proposition aimed at quality tourism, especially regarding the aspects of tourist concentration, seasonality and employment. To this end, the country must continue to focus its efforts on designing strategies to optimise the geographical distribution of tourism and reduce its seasonality, achieved by diversifying the supply of tourism products and services and improving the loyalty of those visiting Spain.



New scenario

How is Brexit affecting tourism in Spain?

In June 2016, the United Kingdom's vote in favour of leaving the European Union (EU) opened up a new scenario for the British economy that could have important repercussions for the Spanish economy and particularly for the tourism industry, which receives around 16 million British tourists a year.¹ In this article we examine the impact of Brexit on the number of British tourists visiting Spain and its potential impact in the future under different EU exit scenarios.

Three years after the referendum, it is still unclear when and under what terms the UK will leave the EU. It is also true that, after an initial adverse reaction in the financial markets, the British economy has performed better than expected.² However, this does not mean that the confusion caused by Brexit has no economic consequences.

① This figure represents nearly 22% of Spain's total inbound tourism (2018 data).

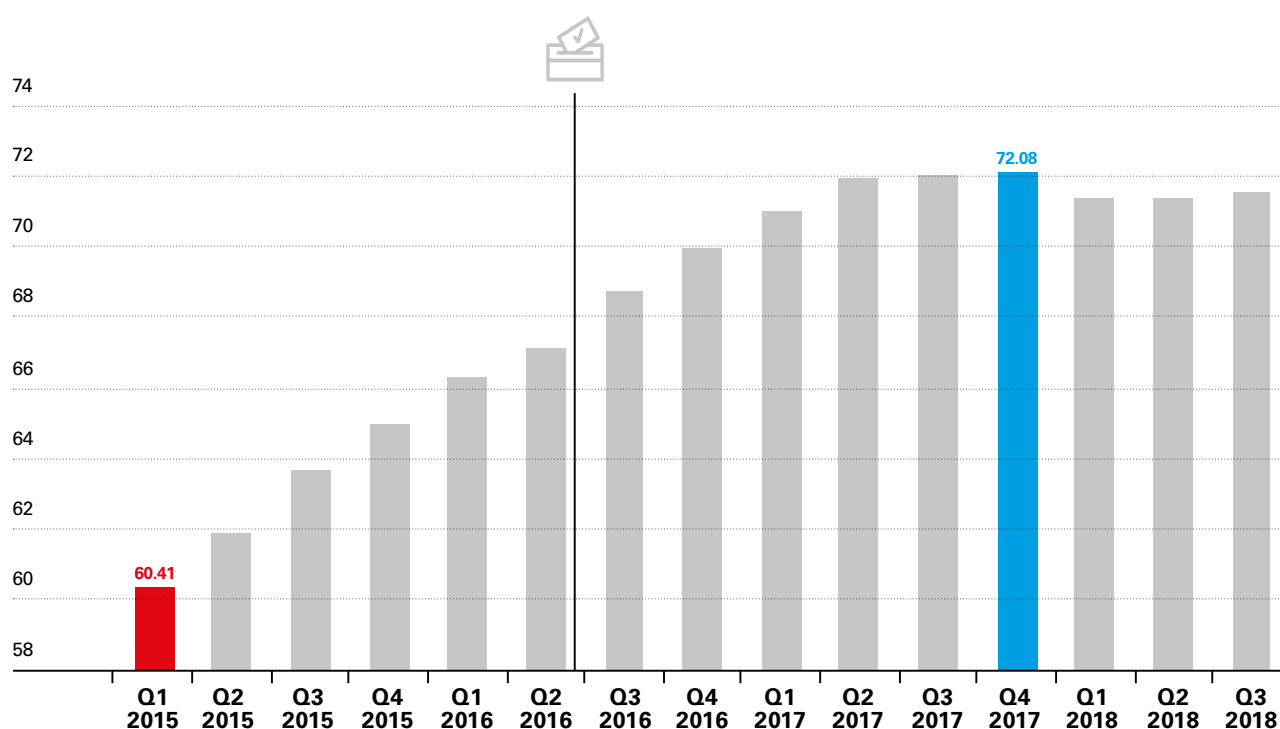
② This was partly due to the actions carried out by the Bank of England, which lowered interest rates and took a number of measures to boost liquidity, helping to ease the initial tension and preventing financial conditions from getting any tighter.



In fact, some of the effects of Brexit can already be seen, such as a slowdown in the UK's economic growth rate since the referendum (from 2.4% in 2015 to 1.4% in 2018). This loss of dynamism has been caused, in part, by the decline in real income due to the sharp depreciation of the pound sterling occurring after the Brexit referendum. This has directly reduced the purchasing power of the British, both in terms of their domestic purchases and also when they travel abroad. In this respect, as the first chart shows, it is not surprising that the tourism demand by UK residents has diminished since mid-2016.

The reduction in the purchasing power of the British as a result of the Brexit referendum has led to a drop in tourism demand from 2016 onwards

Overseas visits by UK residents (cumulative over 12 months)
Millions



Note: The vertical line marks the date of the referendum on the UK's exit from the EU (23 June 2016).
Source: CaixaBank Research.

Given this situation, we might wonder how British tourism demand would have fared without the Brexit effect. To find out, we used the trend in tourist demand in Ireland, which behaved very similarly to the UK trend until mid-2016 (see the



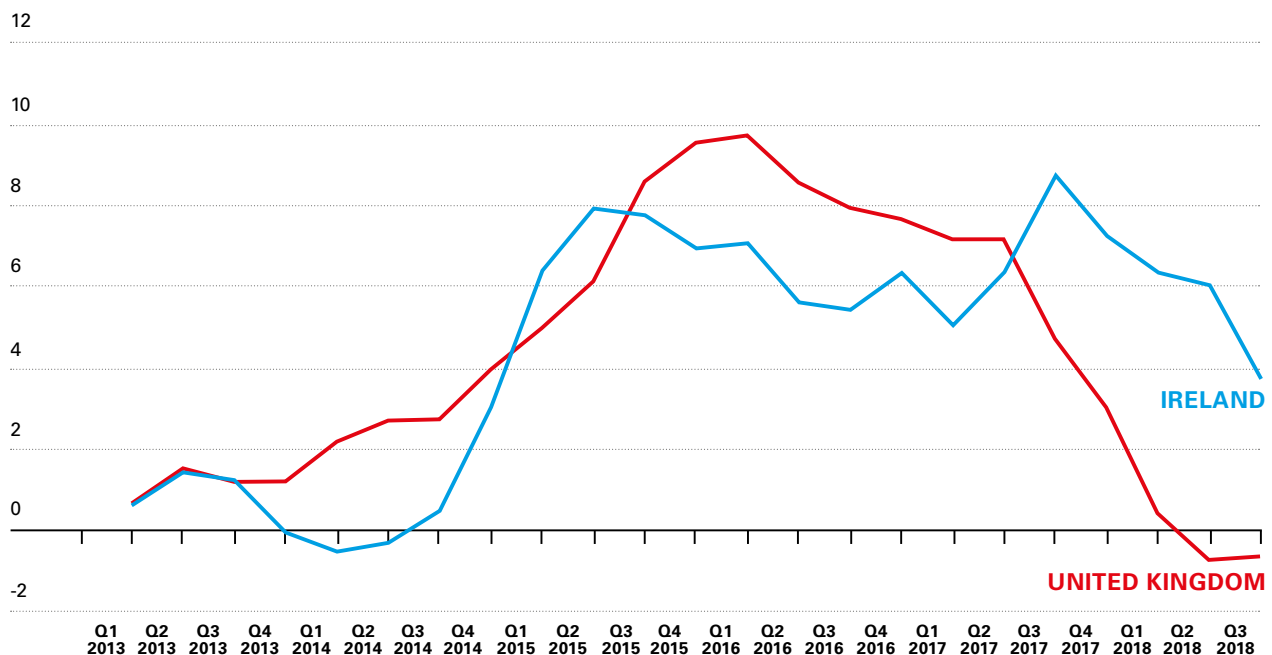
Tourism

second chart). If UK tourist numbers had continued to perform in a similar way to those from Ireland after the Brexit referendum, up to 5 million more UK residents would have travelled abroad between Q3 2016 and Q3 2018. For Spain, the most popular destination among the British, this estimate means that, since mid-2016, approximately 1.1 million British tourists have been lost (around 500,000 a year).³ However, it should be noted that UK visitor numbers for Spain have posted a positive trend over the past two years. In fact, Spain has managed to increase its market share (from 20% in Q2 2016 to 22% in 2018) as well as the daily expenditure per visit among the British, a sign that it is still a competitive market.

③ For the calculation we used the average market share (21.5% of outbound tourism) between Q3 2016 and Q3 2018.

Comparison of outbound tourism between Ireland and the United Kingdom

Year-on-year change (%)



Note: Cumulative over 12 months.

Source: CaixaBank Research, based on data from the UK Office for National Statistics.

For the next few quarters, the outlook for the British economy in general and British tourism demand in particular will continue to depend on the Brexit developments and outcome. Ratification of an agreement would avoid a hard Brexit and help to dispel some uncertainty in the short term, although it would not guarantee that the current links between the EU and the UK would remain in the medium and long term. Specifically, a long process will begin post-Brexit during which both parties must define the details of their future relationship. At present, the UK's position is unclear, a fact that makes it difficult to determine what the future relationship will be like and the implications for economic activity, among other areas.



In this context, it may be useful to look at possible future scenarios and analyse their impact on Spain's inbound tourism from the UK. To this end, we have used the range of scenarios developed by the Bank of England,⁴ going from benign environments, where the links between the EU and the UK remain close, to more adverse ones such as a hard Brexit. With these scenarios, and based on our estimates of the elasticity of tourism demand in the United Kingdom (with respect to GDP and the exchange rate)⁵, we have passed the impact of Brexit onto the number of British tourists coming to Spain.

At CaixaBank Research we have analysed four possible scenarios to estimate the future impact of Brexit on the number of British tourists coming to Spain, from the most benign to the most adverse

In the most favourable scenario, the United Kingdom would ratify the exit agreement negotiated with Brussels and a relatively long transition period would be implemented, during which both parties would negotiate as close a future relationship as possible (without any significant increase in trade barriers between the two). In this case, the Bank of England estimates that, thanks to the reduction in uncertainty, the impact on UK GDP could even be positive in the medium term (+1.75%)⁶ and that the pound sterling would appreciate by 5%. If this scenario occurs, we believe the impact on British tourism would be positive and that visits to Spain would increase by around 800,000 (4.9%), cumulative up to 2023.

^④ These scenarios are not forecasts because they do not cover all possible assumptions and effects of a future economic relationship other than the current one or a hard Brexit. See Bank of England (2018): EU withdrawal scenarios and monetary and financial stability. A response to the House of Commons Treasury Committee.

^⑤ Change in the number of tourists in response to changes in real GDP and the nominal pound-euro exchange rate.

^⑥ Up to 2023. Effect on GDP in relation to the base scenario valid in November 2018.



Tourism

A second scenario, less favourable than the previous one, envisages a future trade relationship that is less close with the EU. Specifically, after the transition period, border controls and more regulatory barriers would be introduced, leading to a slight fall in GDP in the medium term (-0.75%). However, the reduction in uncertainty would push up the pound slightly (by 2%). In this case, our estimates indicate that the impact on the number of British tourists coming to Spain would be negligible: British visits would decrease by approximately 150,000 (1.0%) up to 2023.

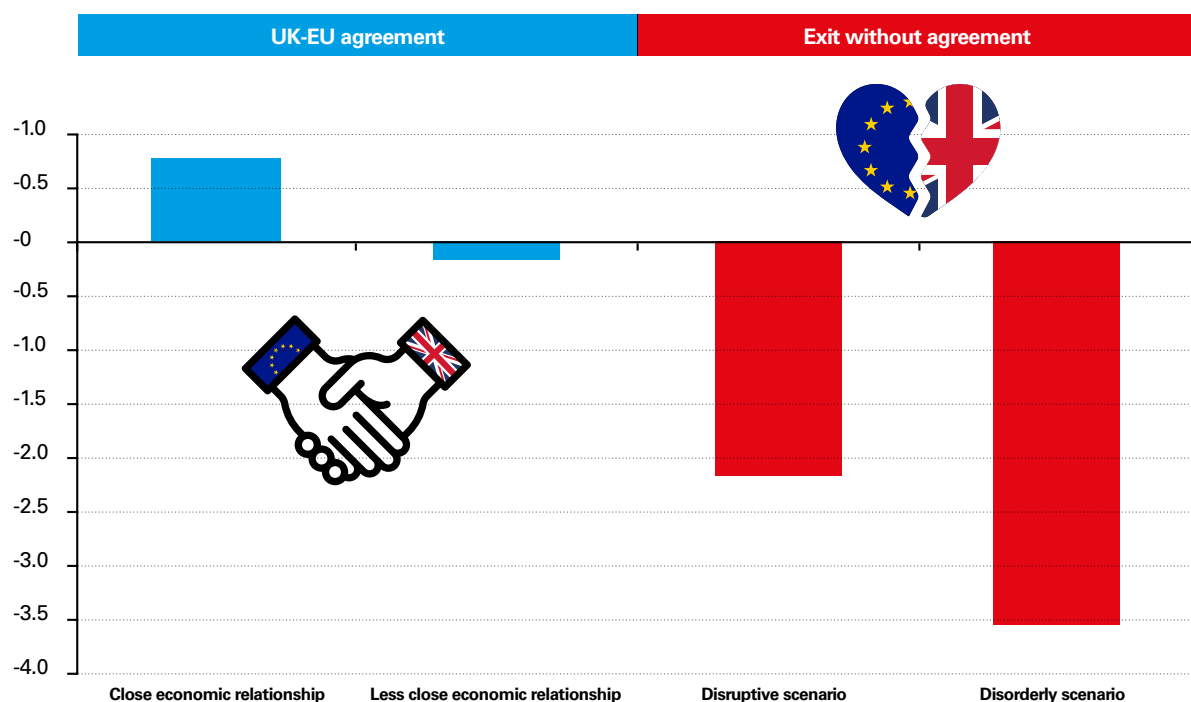
The other two scenarios contemplate the possibility that the UK and EU will not reach an agreement and that trade between them will be governed by WTO terms (with tariffs and non-tariff barriers to trade and customs checks). Neither do these two scenarios rule out the possibility of some of the production chains currently in operation breaking down, or certain episodes of financial instability. Depending on the degree of disruption, the Bank of England estimates the impact on the UK's GDP could range from -4.75% (less disruptive scenario)⁷ to -7.75% (highly disruptive or disorderly scenario).⁸ Both scenarios also assume a sharp depreciation of the pound (between 15% and 25% , depending on the severity of the scenario). Should any of these scenarios occur, we estimate the impact on British tourism outflows to Spain would be significant and negative, ranging from 13.8% to 22.7% , cumulative up to 2023.

⁷ The United Kingdom is able to replicate the trade agreements with third countries that it had due to its EU membership. There are also certain disruptions at border controls.

⁸ After leaving the EU, the United Kingdom loses all its trade agreements with third countries. The United Kingdom also faces severe disruption at its borders due to customs checks.

Impact of Brexit on British tourist visits to Spain

Million visits



Note: Cumulative over 12 months.

Source: CaixaBank Research, based on data from the UK Office for National Statistics.

The impact of Brexit on the tourism sector will therefore largely depend on the type of commercial relationship established between the UK and the EU. However, the sensitivity of British tourism in each of these scenarios may be amplified or reduced depending on the institutional arrangements agreed, since they could make Europe's tourism industry less competitive. One such important provision is the United Kingdom's access to the European Common Aviation Area⁹, as without this prices for flights between the UK and continent are likely to increase (due to less competition). Also, if a soft Brexit is not achieved, particularly costly measures could be introduced for British tourists, such as the loss of free health coverage in the EU and restrictions on their movements (including border controls and visa requirements for travelling to the EU).

⁹ This single market for aviation services allows any airline from an EU country to operate on any route within the EU and set the fares it wants. If the United Kingdom loses access to the ECAA, British airlines would be treated as third-country operators and their licences, certificates and registration would no longer be valid in the EU.

The impact of Brexit on Spain's tourism industry will largely depend on the trade relations established between the UK and EU. In the short term, British tourism is likely to be less dynamic than in the years prior to the referendum.

In summary, the estimated impact of Brexit on British tourism demand varies considerably depending on the scenario and hypotheses considered, illustrating the high degree of uncertainty surrounding the UK's exit from the EU and its possible economic implications. In this respect, an agreement between both parties that minimises uncertainty and guarantees an orderly transition towards a new model of commercial relations without unnecessary barriers would succeed in mitigating a large part of this impact. However, over the next few months, Brexit confusion is likely to keep the rate of economic activity in the UK contained and the British pound volatile. In such a situation, British tourism is likely to continue suffering from the effects of Brexit and be less dynamic than in the years prior to the referendum.

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Main indicators of the tourism industry

Percentage change compared with the same period the previous year, unless otherwise specified

	Average 2000-2007 ¹	Average 2008-2014 ²	Average 2015-2017 ³	Average 2018	2019 ⁴	Trend ⁵	Date latest data
Economic activity indicators							
Total GDP	3.6	-1.3	3.1	2.6	2.4		Q1 2019
Tourism-related GDP	1.7	-0.7	6.0	-	-		2017
Labour market							
Total affiliated workers	3.5	-2.3	3.2	3.2	2.8		May-19
Affiliated workers in the tourism industry	4.2	0.4	4.7	4.0	3.4		Mar.-19
Accommodation services	4.6	-0.9	6.0	4.1	1.0		Mar.-19
Food and beverage services	4.4	1.0	4.7	3.2	2.6		Mar.-19
Travel agencies/tour operators	5.2	-2.7	5.6	6.5	6.6		Mar.-19
Other tourism services	3.8	0.1	3.9	5.4	5.3		Mar.-19
Balance of payments							
Tourism receipts (% of GDP)	4.5	4.2	4.9	5.2	3.7		Q1 2019
Tourism expenditure (% of GDP)	1.2	1.2	1.6	1.8	1.4		Q1 2019
Total tourism (% of GDP)	3.4	3.0	3.4	3.3	2.3		Q1 2019
Tourism demand indicators							
International tourism							
Number of international tourists	3.8	2.2	9.6	1.1	4.4		Apr.-19
Origin: United Kingdom	-	4.6	9.3	-1.7	0.1		Apr.-19
Origin: Germany	-	5.7	6.5	-4.0	6.5		Apr.-19
Origin: France	-	11.1	3.4	0.6	-2.0		Apr.-19
Origin: Italy	-	14.1	5.8	3.9	8.1		Apr.-19
Origin: United States	-	1.2	19.2	11.8	17.5		Apr.-19
Origin: rest of Europe	-	-	12.4	3.6	2.2		Apr.-19
Origin: outside Europe	-	-	18.2	5.7	14.4		Apr.-19
Expenditure of international tourists	5.4	3.3	10.8	3.3	5.0		Apr.-19
Average duration (days)	-	-	7.9	7.5	6.5		Apr.-19
Average daily expenditure per person (€)	-	-	132.7	145.3	153.0		Apr.-19
Domestic tourism							
Overnight stays (number)	-	-	4.2	0.0	-		Dec.-18
Average duration (days)	-	-	4.0	3.4	-		Dec.-18
Average daily expenditure per person (€)	-	-	58.5	65.8	-		Dec.-18
Tourism supply indicators							
Number of available hotel places	3.3	1.2	1.3	1.2	1.2		Apr.-19
Category: 4 or 5-star	9.7	3.6	3.1	-0.4	1.7		Apr.-19
Rest of categories	0.2	-0.8	-0.4	1.5	0.6		Apr.-19
Hotel occupancy rate (pp)	-0.4	0.2	2.1	-0.5	2.0		Apr.-19
Category: 4 or 5-star	-0.6	0.6	1.6	-1.0	2.0		Apr.-19
Rest of categories	-0.5	-0.5	2.3	-0.2	2.1		Apr.-19
Average daily rate (ADR)	-	0.2	5.1	2.2	0.7		Apr.-19
Category: 4 or 5-star	-	-0.8	5.4	1.5	0.7		Apr.-19
Rest of categories	-	0.4	3.6	2.6	0.2		Apr.-19
Revenue per available room (RevPAR)	-	0.6	9.5	1.9	1.7		Apr.-19
Category: 4 or 5-star	-	0.4	8.3	0.4	0.7		Apr.-19
Rest of categories	-	-1.3	9.9	3.6	3.7		Apr.-19

Notes: 1. For the indicators related to the number of international tourists and total expenditure of international tourists, the average corresponds to 2004-2007. 2. For the indicators related to the number of international tourists by origin, the average corresponds to 2013-2014. 3. For the indicator related to overnight stays, the average corresponds to 2016-2017. 4. Average for the year up to the latest data available. 5. A sun denotes above the average growth in 2015-2017 minus 1/4 standard deviation; a sun with cloud denotes above the average growth in 2015-2017 minus 1 standard deviation; a cloud denotes negative growth or above the average growth in 2015-2017 minus 2 standard deviations; and rain denotes below the average growth in 2015-2017 minus 2 standard deviations.

Source: CaixaBank Research, based on data from Turespaña, the Spanish Statistical Office and Bank of Spain.

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