



Potential demand

What do the elasticities of international tourism demand tell us about the growth of the tourism sector in Spain?

The Spanish tourism sector has experienced significant growth in the last decade, exceeding the average of the national economy and remaining competitive vis-à-vis other destinations. The key lies in the high degree of sensitivity of international tourism demand to income growth in the source countries. In addition, a relatively moderate increase in domestic prices compared to the greater increases in competing destinations has strengthened Spain's competitive position. These dynamics explain the sustained increase in international tourist arrivals and support the forecasts of sustained growth in the number of visitors in the long term. However, this growth poses challenges in terms of sustainability and congestion, so it is essential to balance visitor flows and pursue policies that conserve natural resources and cultural heritage, thus ensuring a sustainable and high-value form of tourism.

The performance of the tourism sector in Spain during the last decade has been nothing short of extraordinary. Between 2015 and 2019, tourism GDP grew in real terms at an average annual rate of 4.6%, significantly outpacing the economy as a whole. Subsequently, in the period 2019-2024, which was marked by the pandemic, while global international arrivals fell by around 2%, arrivals in Spain increased by 10%. Only Turkey recorded a better performance among the top 10 recipient destinations worldwide. The medium- and long-term outlook is also very encouraging, and some studies place Spain as the leading recipient of international tourists by 2040.⁷

⁷ Google and Deloitte (2024): «NextGen travellers and destinations: Our vision on the tourism industry transformation».

What lies behind this solid performance and the good outlook for Spain's tourism sector? To answer this question, in this article we estimate the sensitivity of tourism demand to changes in income levels in the source countries and to prices, both those within Spain and those of competitor countries. This exercise reveals that the key factor behind the good long-term



performance of Spain's tourism sector is the high sensitivity of tourism demand to income growth, while the strong performance in the period 2019-2024 is supported by moderate price increases relative to competitor countries.

Elasticities of international tourism demand in Spain

Demand elasticity is an economic concept which measures how the quantity demanded of a good or service reacts to changes in key factors, such as price or income level. At CaixaBank Research we have calculated three metrics:

1. Elasticity of tourism demand relative to income in the source countries (using real per capita GDP as an approximation).
2. Elasticity of tourism demand with respect to prices in Spain (using the CPI as a proxy).
3. Elasticity of tourism demand with respect to prices in competing destinations (based on the CPIs of those destinations).

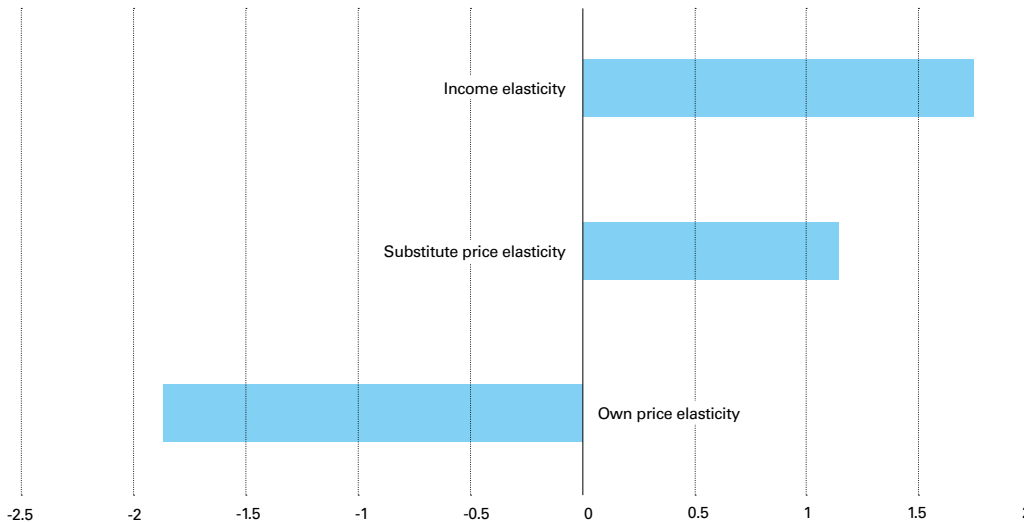
The results show that tourism demand in Spain is particularly sensitive to changes in income levels in the source countries (elasticity of 1.74). In other words, a 1% increase in real per capita GDP in the source countries is associated with a 1.74% increase in international tourist arrivals in Spain. On the other hand, price elasticity in Spain is estimated at -1.87 , so a 1% increase in prices leads to a 1.87% decrease in the number of arrivals. Finally, the cross-elasticity to prices in competing destinations (1.14) indicates that a 1% increase in prices in absolute terms in alternative destinations translates into a 1.14% increase in arrivals in Spain.

Taken together, these estimates confirm that tourism in Spain meets the characteristics of a luxury good (demand grows more than proportionally to an increase in income) and that it is highly sensitive to prices, both within our country and in competitor countries.



Elasticities of international tourism demand

Change in demand (%)



Note: Elasticity measures the percentage change in the number of international tourist arrivals in Spain in the event of a 1% increase in the GDP per capita of the source countries, in prices in Spain and in prices in competing countries.

Source: CaixaBank Research, based on data from Eurostat and the National Statistics Institute (INE).

The rise in prices in Spain in 2019-2014 is less pronounced than the average among our competitors

The notable resilience of Spain's tourism sector during the period 2019-2024 is largely explained by a more moderate increase in tourism prices compared to other competing markets.⁸ While Spain registered an increase in tourism prices of 22.3%, countries such as Greece (23.5%), France (35.1%) and Croatia (44.8%) have experienced substantially bigger prices increases. Even compared to markets with lower increases, such as Italy (14.4%), Spain's competitiveness has been reinforced by less disruptive price adjustments in key segments. For example, although Spanish hotel rates have increased by 31.4%, in Italy they have done so by 32.4%, which keeps Spain in an advantageous position when it comes to attracting cost-sensitive visitors.

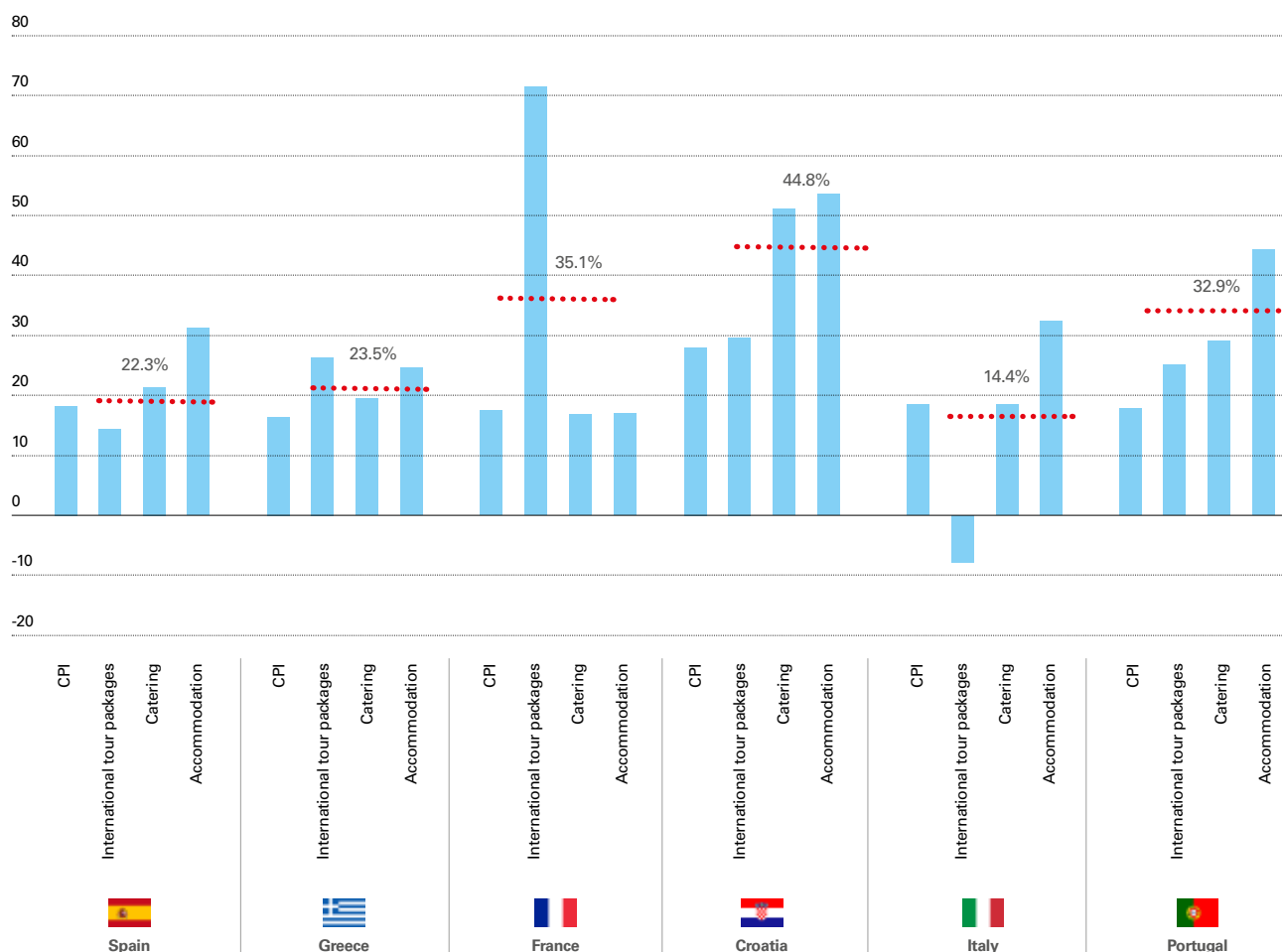
⁸ Average between the price increases for accommodation, catering and international tour packages.

From a microeconomic perspective, the price elasticity of tourism demand in Spain, estimated at -1.87, indicates that travellers respond relatively intensely to changes in prices. However, the moderate increase limits the contraction in the quantity demanded. In turn, a cross-elasticity of 1.14 relative to competing destinations shows that when other countries raise their prices, tourism demand shifts favourably towards Spain. These factors have helped to strengthen the sector's competitive position and have facilitated the good performance of international arrivals in recent years.

The notable resilience of Spain's tourism sector during the period 2019-2024 is largely explained by a more moderate increase in tourism prices compared to other competing markets

Cumulative inflation between 2019 and 2024

Change between 2019 and 2024 (%)



Source: CaixaBank Research, based on data from Eurostat.

Income elasticity: the driving force behind the boom and the future of Spanish tourism

The rapid expansion of Spain's tourism sector in recent decades has been largely based on the high income elasticity of its demand. In particular, an average elasticity of 1.74 is estimated, which means that a 1% increase in global GDP per capita translates into a 1.74% increase in international tourist arrivals in Spain. This strong connection between disposable income and the propensity to travel has been key in consolidating Spain's position in the global tourism landscape, as well as underpinning a favourable growth outlook for the future.

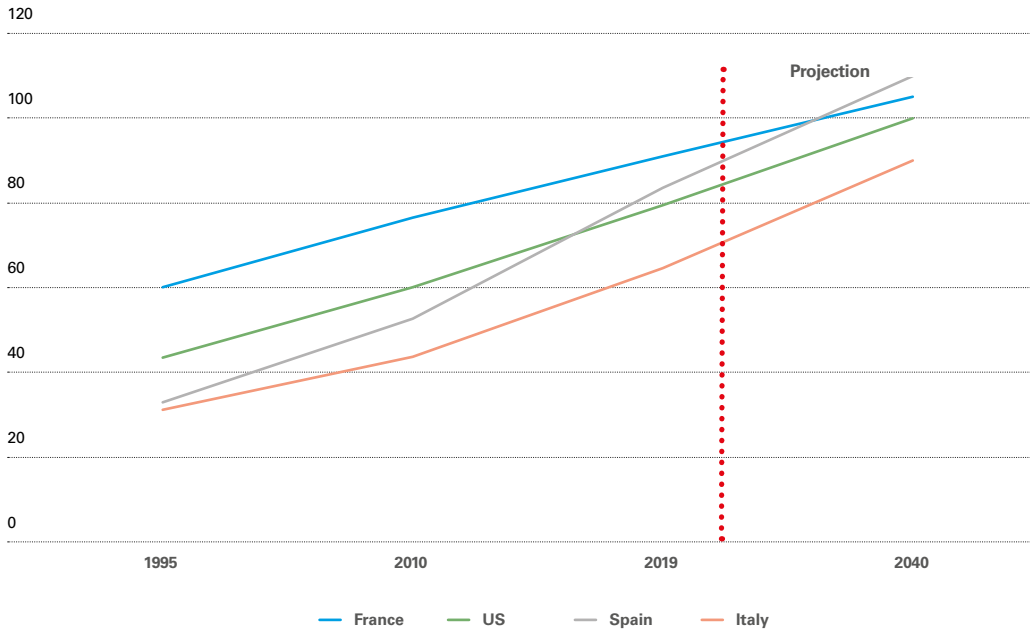
The figures illustrate this dynamic clearly: arrivals increased from 33 million in 1995 to 52.7 million in 2010 and reached 83.5 million in 2019. This steady increase is partly due to the improvement in disposable income in various source markets and confirms the strong sensitivity of tourism to travellers' spending capacity.



Tourism

International tourist arrivals

Millions



Note: Projections to 2040 from the study by Google and Deloitte (2024): «NextGen travellers and destinations: Our vision on the tourism industry transformation».

Source: CaixaBank Research, based on data from Deloitte, Google and the WTO.

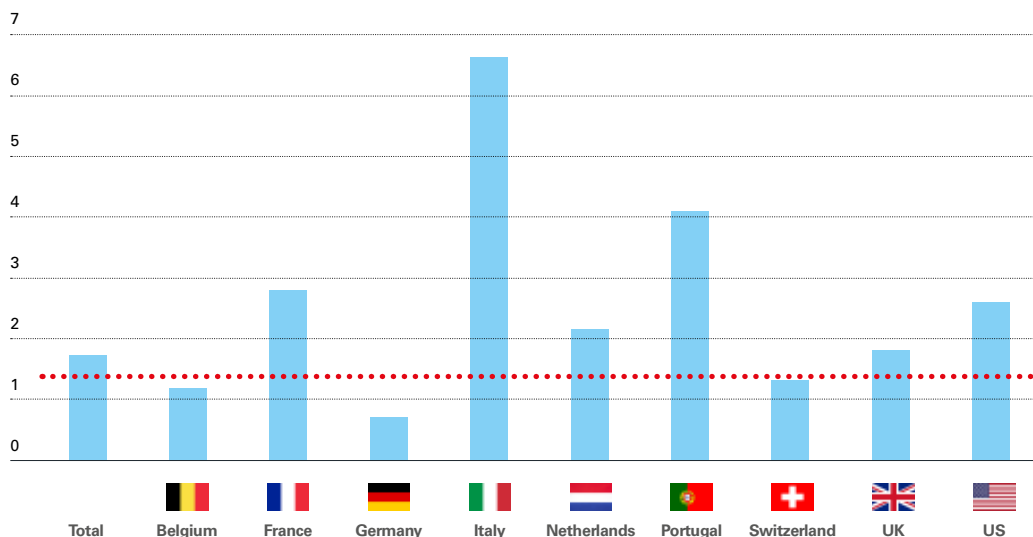
Global economic growth projections indicate that Spain could exceed 110 million arrivals in 2040, according to a study by Deloitte and Google, which would further consolidate its status as a leading global destination. To the extent that the source economies maintain a steady pace of growth and Spain's tourism supply continues to strengthen its competitiveness, our estimate for income elasticity suggests an even more pronounced growth in arrivals between now and 2040. In any case, the forecast of 110 million arrivals is plausible when we take into account other factors that could affect the performance of tourism, such as geopolitical risks or population flows.

It should also be noted that income elasticity exceeds the value of 1 in most of the main source countries from which tourists visit Spain. Italy tops the list with an elasticity of 6.64, followed by Portugal (4.1), France (2.8), the USA (2.6) and the Netherlands (2.16). At the opposite end of the spectrum lie Belgium (1.19) and Germany (0.7), which show a more moderate reaction to changes in income.

Global economic growth projections indicate that Spain could become the leading recipient of international tourists by 2040

Income elasticity of international tourism demand by country

Change in demand (%)



Note: Elasticity measures the percentage change in the number of international tourist arrivals in Spain in the event of a 1% increase in the GDP per capita of the source countries.

Source: CaixaBank Research, based on data from the Spanish National Statistics Institute (INE) and the World Bank.

Consolidating a luxury good

Given the high income elasticity of tourism demand in Spain, which suggests that we will witness significant growth in the number of arrivals as income levels in the source economies grow, it would be advisable to manage visitor flows with care. An excessive and uncoordinated volume of tourism could adversely affect the environmental and social quality of the destination, jeopardising Spain's status as a high-quality tourist destination. It is therefore advisable to favour policies that balance supply and demand in more sensitive areas, while promoting investment in green infrastructure and the efficient use of resources such as water and energy. This will help protect the natural environment and, in parallel, maintain the high-quality experience that is sought by international travellers of greater value.