New tourist flows boost summer arrivals virtualy back to pre-pandemic levels

The high expectations for the recovery in international tourism appear to have been met this summer by comparison with 2019, particularly in terms of daily tourist expenditure. Going forward, expected increases in tourism from source markets with higher on average purchasing power is helping to underpin a constructive outlook for the Spanish tourism sector in 2024.

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Abstract: The high expectations for the recovery in international tourism appear to have been met this summer by comparison with 2019, particularly in terms of average daily tourist expenditure. Although changing dynamics within the sector are worth consideration. Firstly, there have been some shifts across the traditional source markets. While France has performed well, increasing its market share, the UK and Germany have relinquished part of their market share, reducing the aggregate commanded by these three markets to 47.4%, relative to levels of around 49% back in 2019. This shift has been accompanied by an increase in tourists from the Americas, with higher purchasing power. As well, although there are notable doubts about the outlook for the Chinese economy, there is still considerable upside emerging from the fact that Chinese visitors, who also generally command above average purchasing power, may increase now that all COVID-related impediments on tourism have been removed (since August). These two trends support an encouraging outlook for the sector heading into 2024. Lastly,

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Catalonia has fared poorly relative to the other main destinations within Spain, which are all back to pre-pandemic levels. Among other factors, overtourism may be behind the weak results posted by Catalonia in terms of both tourist numbers and their average daily spend. It is still premature to ascertain whether those numbers are the result of a slower recovery or a change in international tourist preferences around this destination.

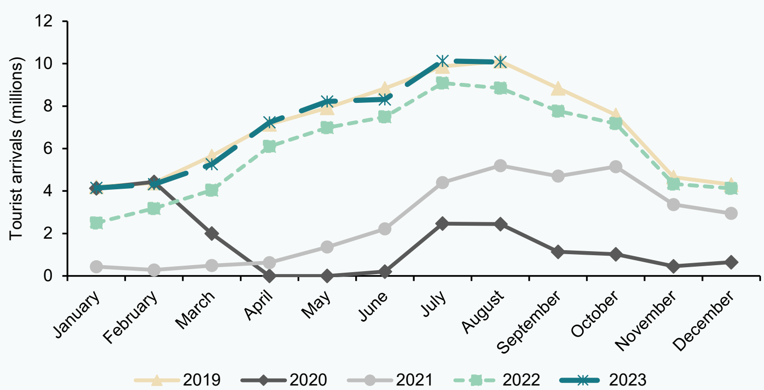
Introduction

It looks as if, at last, international tourism will this year leave behind the rout triggered by the pandemic. By and large, the high expectations for the summer appear to have been met. Certainly, the comparison with 2022 is favourable. However, the picture looks considerably different depending on the benchmark for comparison. Given that in this paper, the goal is to assess whether the tourism sector is back to pre-pandemic levels, we draw our conclusions from a comparison with 2019.

The first step is to revisit the impact of the pandemic on international tourist arrivals in Spain in order to then analyse how things have recovered. Exhibit 1 provides the monthly trend in tourist arrivals to Spain over the past five years. Between July and September 2021, international visitors were just half of those received in the same period of 2019. It took until October 2022 for things to stabilise somewhat. In the first eight months of 2023, total international tourist arrivals in Spain were very close to the 2019 equivalent, falling short by just 0.7%. Next, we analyse the recovery across a selection of destinations, issuer markets, travel motives and expenditure levels.

It is well known that Spain's best-selling product is sun-and-sand tourism, which is

Exhibit 1 **International tourist arrivals to Spain**



Source: Frontur (INE).

> "Given preferences for sun-and-sand tourism, Spanish tourism is strongly concentrated across five regions: Catalonia, the Balearic Islands, the Canary Islands, Andalusia, and Valencia, which in 2019 garnered 81.6% of all international visitors – adding Madrid, that concentration rises to 90.2%."

why tourism is strongly concentrated across five regions which in 2019 garnered 81.6% of all international visitors. Those regions were, in order, Catalonia, the Balearic Islands, the Canary Islands, Andalusia and Valencia. Adding Madrid, that concentration rises to 90.2%. The recovery continues to be marked by that concentration, with those same destinations cornering 90.3% of international tourist arrivals so far in 2023. They have not all recovered to the same degree, however. Catalonia has only received 90.5% of the tourists it received from overseas in 2019, so losing market share (from 23.5% to 21.4%). Of the other five regions, only Madrid is slightly below the 2019 equivalent (at 98.9%), while international visitors to Valencia have increased by 5.7%. The first conclusion is, therefore, that the main destinations are back at pre-pandemic levels, except for Catalonia.

Among the regions that have traditionally received fewer international visitors, it is worth highlighting the growth along the Cantabria coastline. Asturias, the Basque Country, and Cantabria have recorded growth of 34.7%, 23.3% and 9.3%, respectively, increasing their aggregate share of the total to 3.5%. Given that the sun-and-sand segment has defended its share, this evidence suggests that rural inland tourism has shifted to the northern coast, where visitors can enjoy nature as well as the possibility of beaches with lower temperatures than those experienced along the Mediterranean or on the islands.

International tourist profile

In line with its specialisation in sun-and-sand tourism, the tourists who visit Spain mainly do so for "leisure" and this has not changed. There has, however, been an increase in the number of trips for "personal" reasons (health, family) and "other reasons", which now account for 6.6% of the total, even outstripping "business" travel, which is still 15.6% below the peak of 2019. That trend may be attributable to more intense use of video-conferencing and online work arrangements, trends that may also be affecting the number of tourists who visit Spain to study, which remains 17.4% below pre-pandemic levels.

The drop in business and academic travel is one of the reasons behind Catalonia's poor performance: there, arrivals of business and student travellers are even lagging behind the national average, at 69% and 75% of 2019 arrivals, respectively. However, the main factor behind this region's failure to revisit 2019 international tourist levels is the loss of nearly one million leisure tourists when, as already noted, on aggregate, leisure tourism is already back at pre-pandemic levels. This development is worth highlighting. However, it is necessary to wait a few months to determine whether it is a passing trend or the result of the change of preferences around this destination. Recall that Barcelona is one of the European cities that, together with Venice and Dubrovnik for example, presents pressing overtourism issues. Indeed,

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the term "tourismphobia" appeared in the Spanish media for the first time in reference to protests by residents in Barcelona against gentrification, which later spread to other cities like Palma de Mallorca (Milano, Novelli and Cheer, 2019).

The growth in tourist apartments is a phenomenon affecting many Spanish cities. That issue has recently become most pressing in the city of Malaga where 56.1% of all hotel spaces are platform-based vacation rentals, compared to 29.9% and 28.5% in Madrid or Barcelona, respectively. At the other end of the spectrum, for now, is Palma de Mallorca, where this class of accommodation accounts for just 10% of tourist accommodation capacity. That figure is so low because of the ban imposed in July 2018 on setting up tourist apartments in multi-family homes, *i.e.*, limiting this practice to individual homes. Therefore, Palma de Mallorca is a clear example of how regulations can effectively curb unbridled encroachment of vacation rentals in residential areas. On average, in the 20 Spanish municipalities with the highest incidence of tourist accommodation, 26% of the nearly 1,300,000 spaces are accounted for by tourist apartments (Exceltur, 2023). Nationwide, so far in 2023, the number of international tourists selecting tourist apartments was 5.7% above the 2019 equivalent and accounted for 11.4% of tourist accommodation. That growth has come at the expense of campsites and rural lodgings, as the percentage of international tourists staying in hotels was the same as in 2019.

The traditional source markets – UK, France, and Germany – are also staging an uneven recovery. Firstly, it is worth noting that the heavy concentration in visitors from those countries has been easing over the past two decades (Moral, 2017). Whereas in 2005, 62.4% of international tourists came from those three markets, in the first eight months of 2019, that figure had fallen to 49%. Since the pandemic, however, France has performed extremely well, even increasing its market share. The UK and Germany have relinquished additional market share to leave the aggregate commanded by the three markets at 47.4%.

Scandinavia, which has traditionally been a strong market for Spanish tourism, has performed very poorly– in 2023, arrivals from the region represented just 86.5% of those welcomed in 2019. Some attribute this shrinkage to relative sensitivity to high temperatures and because this summer was particularly hot in Spain, some Scandinavians may have decided to stay away. To counteract that phenomenon, therefore, which is not likely to reverse, it would be advisable to promote alternatives to the traditional sun-and-sand destinations such as Cantabria.

As the West has learned how to live with the COVID virus, medium- and long-distance travel has recovered. That is very good news for Spain as the type of tourists visiting the country is shifting. The biggest change is the intense growth in the number of visitors travelling from the Americas: growth of 14.7%

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> "The biggest change is the intense growth in the number of visitors travelling from the Americas –growth of 14.7% in tourists from the US and 26.1% in those from the rest of the Americas– resulting in tourism from this region now accounting for 10% of all international tourists visiting Spain."

in tourists from the US and 26.1% in those from the rest of the Americas. As a result, the continent has increased its market share, now accounting for 10% of all international tourists visiting Spain. Madrid received 41.5% of the almost one million additional American tourists who visited Spain in 2023 compared to 2019, emerging as their preferred destination by far. The good thing about American visitors is that they exhibit a higher propensity to stay in hotels (72.3% *versus* an average of 62.8%), suggesting higher purchasing power. To analyse this matter in greater detail, we next look at tourist spending patterns.

Expenditure by international tourists

Many Spanish destinations present overtourism problems. It is therefore obviously in the country's interest not only to draw more tourists but also to get them to spend more. The more they spend the bigger their impact on the region's economy, so helping alleviate the issues associated with the overtourism. It therefore makes sense to worry about the "quality" of the tourists received and, by extension, the "quality" of their expenditure.

To conduct this part of our analysis, we look at the average daily spend per tourist, so controlling for trip length. Moreover, aggregate spending volumes will easily rise during a period of inflation. Daily tourist expenditure increased by 16% between January and August 2023 by comparison with the same period of 2019, albeit heavily influenced by inflation. To pin down the underlying trend, we need to look at spending in real terms (*i.e.,* discounting the effect of inflation). To do that, we use the general consumer price index (CPI) for each region and not the tourism-specific index as many tourists use off-market accommodation and those staying in tourist apartments tend to shop in local supermarkets and use public transport. So, correcting for inflation, the real average daily tourist expenditure increased by 2% in 2023 by comparison with the same months of 2019, marking a substantial adjustment. The conclusion regarding the recovery in spending is nevertheless positive, especially considering the fact that the number of international tourists remains slightly below the equivalent 2019 figure (by 0.7%).

The tourist profile analysis revealed growth in the arrival of tourists with higher purchasing power, especially tourists from the US and the rest of the Americas. That is unquestionably behind the fact that the daily tourist expenditure is highest in Madrid. After Madrid, this metric is highest in Catalonia and the Basque Country. Those are the only three regions with an average daily tourist expenditure over 200 euros. By comparison with 2019, of the six major tourist destination regions, only Catalonia has seen a drop in the average daily expenditure (of 3%), with the other five recording average growth in that

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> “By comparison with 2019, of the six major tourist destination regions, only Catalonia has seen a drop in the daily tourist expenditure (of 3%), with the other five recording average growth in that metric of 4.7%.”

metric of 4.7%. This outcome confirms that international tourism in Catalonia is currently experiencing weakness that the rest of the Mediterranean basin and island destinations are not.

The average daily expenditure depends on the type of tourist and their reasons for travelling to Spain. For example, a tourist staying at a hotel spends, on average, 50% more than one choosing another type of market accommodation. Moreover, in 2023, that difference actually widened. There are also considerable differences in this metric depending on the country of origin. Here the classification has not changed, with tourists from the “rest of the world” and the Americas spending the most, twice the average in fact. That is why the growth in tourist arrivals from the Americas is so important for the sector’s overall performance. Within the countries included in the “rest of the world” category, the biggest source markets in 2022 were, in descending order, South Korea, India, Japan, the United Arab Emirates, the Philippines, Saudi Arabia and China. The Asian markets are still far from revisiting 2019 levels, particularly China, whose zero-COVID policy obliged residents to test and isolate upon return from international trips until recently. As a result, in 2022, Chinese visitors to Spain were less than 10% of those received in 2019. The first-quarter 2023 figures are more promising, doubling its total arrivals by 2022 in just three months. Moreover, all lockdown measures upon arrival back in China were removed in August. As a result, although concerns remain over the outlook for Chinese growth, flow of Chinese travellers may register strong growth in the coming months, with a positive impact on expenditure, as Chinese tourists have above average purchasing power.

Conclusions

The most important conclusion is that although international tourism is virtually back at record levels in terms of tourist arrivals, with daily tourist expenditure even above the 2019 equivalent, some things have changed. One key change highlighted is the growth in American tourists who have above average purchasing power so that they can afford higher daily expenditures, notwithstanding longer trips. As well, there is still considerable potential upside in Chinese visitors now that all impediments on tourism have been removed (since August) and if the economy remains on track. These two trends are encouraging for the sector’s performance in 2024. Lastly, it is worth noting the fact that the top destination, Catalonia, has fared poorly in terms of both arrivals and expenditure.

Naturally, there is no ignoring the fact that the international geopolitical situation is getting more and more complicated, with potential ramifications for the tourism sector. The armed conflicts could drive oil prices higher, impacting air fares. On the other hand, the conflict in Israel could make European tourists shy away from the Maghreb and opt for safer destinations along the Mediterranean, boosting tourism in Spain, as was the case in 2015 with the Arab Spring (Moral, 2017).

For the time being, tourist flows to Spain appear to be back on a growth trajectory with the added bonus of rising daily tourist expenditure. This is the scenario facing the sector as we head into the final quarter of 2023.

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