

Spain: How will tourism support the recovery?

After another contraction in the first quarter, the economy is set to grow again. An important sector in the recovery will be tourism and travel. But how much will it contribute?

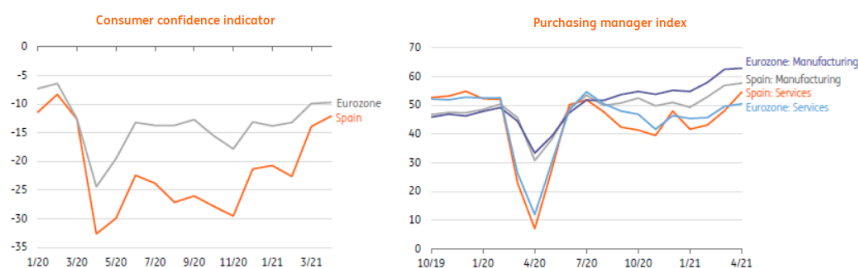


Tourists in Benidorm, Spain

Winds of change

Things are starting to look better for Spain. The latest figures show that the seven-day moving average of new infections is at its lowest point since August 2020, while the vaccination campaign has gained speed. Consumers and businesses are now much more optimistic as restrictions are expected to be gradually removed. Consumer confidence rose in March and April and is now much closer to consumer confidence in the eurozone as a whole. The purchasing manager indexes show that both the manufacturing and service sector in Spain grew in April. Moreover, the improvement in the service sector was much stronger in Spain than in the eurozone.

Survey data much more optimistic



Source: Refinitiv

Tourism crucial for the recovery

So the economy is certain to grow again going forward. But we have to admit there is still a lot of uncertainty. A crucial unknown is the evolution of the pandemic and its impact on the tourism sector. According to the World Travel and Tourism Council, the travel and tourism sector was equal to 14% of GDP in 2019 or about €177bn.

The travel and tourism sector was equal to 14% of GDP in 2019 but was hit hard in 2020.

But the pandemic hit the sector hard. Indeed, activity in the sector shrank by 63% in 2020, while the economy as a whole contracted by 10.8%. If in 2020, the tourism sector had operated at the level of 2019, the contraction in GDP overall would have been 'only' 1.5% instead of the actual contraction of 10.8%. So there is no question that the tourism and travel sector will be critical for Spain's economic recovery.

Keeping domestic infections at bay

While some regions still have a high incidence rate, such as the Basque country and Madrid, Spain, as a whole, has an infection rate that is lower than other large EU countries. However, the risks of another wave of new cases has not disappeared completely. The state of emergency was cancelled at the beginning of May, but this decision was made independently of the health situation at that time. As the state of emergency has now been cancelled, regions have relaxed (and were sometimes forced to relax) restrictions. As the percentage of vaccinated people, currently at 37%, is not high enough for herd immunity, the easing of restrictions comes with the risk of increasing new infections.

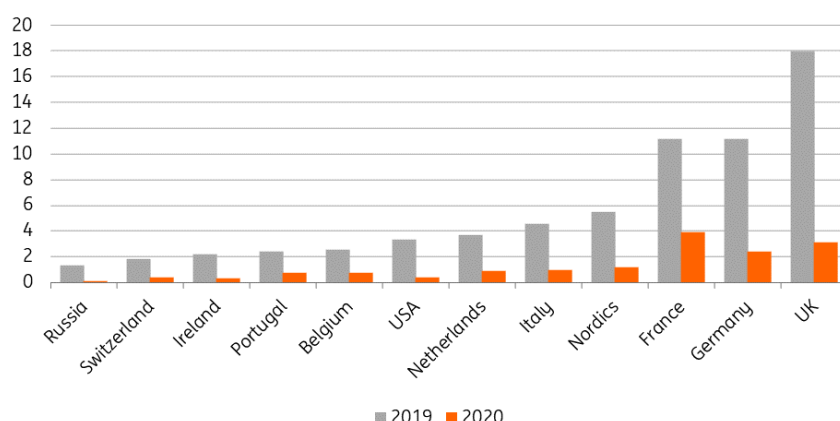
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A safe health situation is obviously important for domestic tourists. In 2020, spending by domestic

tourists halved compared to 2019, from €60bn to €30bn. As the state of alert and restrictions to travelling between regions has now been annulled, domestic tourism will be able to recover. It will probably get an extra boost, as some Spaniards will opt to stay in Spain for the holidays. We expect total spending by domestic tourists will recover to €50bn in 2021.

The health situation within Spain is also crucial for international tourists as other countries could determine that travelling to the country is too risky and make it illegal or more difficult to do so. The UK, for example, recently left Spain on the list of countries where travellers need a negative test on arrival, a 10-day quarantine period and two tests at home. There were about 18 million British tourists in 2019, which was about 26% of all international tourists. This dropped to about three million in 2020. If this UK decision continues during the summer months, it will have major repercussions for the Spanish economy. But this is not our base case. We expect Spain to be reclassified in the coming weeks, if the health situation remains benign.

Number of international tourists in Spain from various countries in 2019 and 2020



Source: Instituto Nacional de Estadística

A travel passport will help

For travellers from the EU27, who make up the largest percentage of international tourists visiting Spain, a travel certificate will be crucial. Luckily, the EU recently agreed on a travel certificate for people who received a vaccine, have a negative test or are immune after recovering from Covid-19. Now the focus will move toward the technological hurdles. Indeed, it is not an easy task to have a system that is compatible at the pan-European level. Currently, there is a dry run to test the technology involving a number of EU countries, including Spain.

For now, we believe that the Covid-19 certificate will be ready by the summer. This implies that EU tourists will be able to travel more smoothly to Spain from the end of June onwards. This, however, will only be the case if the health situation has not deteriorated.

Interestingly, the EU system could be linked with non-EU countries. The European Commission has close contacts with, among others, the United States and the World Health Organization, to allow the certificate to be used more widely. This is also important for Spain as more than 20% of international tourists in 2019 were non-EU and non-UK.

For non-EU and non-UK tourists the situation is obviously more complicated. The health situation of the specific country will be crucial. But we think that most travellers will probably opt to stay relatively close to home and so the number of tourists from the US, for example, will recover more slowly. On top of that, the use of EU certificates will probably be used by non-EU tourists at a later date than Europeans themselves.

Our base case

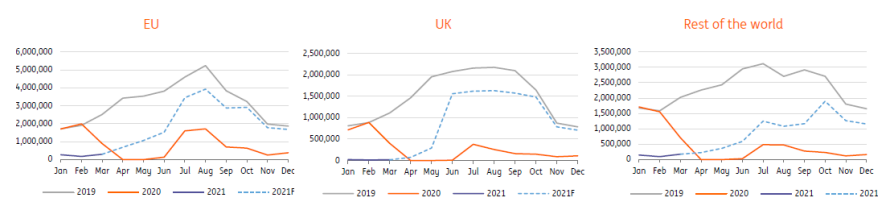
In our baseline scenario, we assume that the health situation does not worsen, that British tourists will soon be able to travel to Spain with far fewer complications and that the EU certificate becomes operational at the end of June. Given the modest performance in the first half of the year in terms of international tourists and the expected recovery in the second half, we expect 40 million international tourists in 2021. This is more than double the number in 2020, but 50% less than in 2019.

According to our calculations, using the same methodology as the World Travel and Tourism sector, all this implies a total contribution of the sector to GDP of about €110bn in 2021. This is almost double the amount in 2020, but 38% lower compared to 2019. We can conclude that the tourism sector will recover in 2021, but that not all the economic damage from 2020 will be restored this year.

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Our estimate of €110bn, however, could be an understatement. In this calculation we assumed that the average tourist spends as much as in 2019. If tourists spend more on average because they want to make up for lost time, then the contribution to GDP will be higher. Let's hope for that!

Number of international tourists in 2019, 2020 and 2021



Source: Instituto Nacional de Estadística

Note: For the EU the countries included are: Belgium, France, Germany, Ireland, Italy, Netherlands and Portugal.

Conclusion

Accounting for 14% of GDP in 2019, the tourism and travel sector will be key for the Spanish recovery. As the health situation in Spain improves and gets better in the countries where international tourists come from, the sector will be able to recover in the next few months. But given the weak first half of the year and the incomplete recovery in the second half, we think that

the level of international tourists in Spain in 2021 will be 50% lower compared to 2019. The contribution of the sector to GDP is also expected to almost double compared to 2020, but will still be about 38% lower compared to 2019.

We continue to forecast GDP growth to be at 5.0% in 2021 and 6.0% in 2022.

For the Spanish economy as a whole, we expect the economy to grow from the second quarter onwards. We continue to forecast GDP growth to be at 5.0% in 2021 and 6.0% in 2022. This implies that the economy will not have reached its pre-crisis level before 2023. Admittedly, risks to these forecasts are to the upside as the national Recovery and Resilience plan could boost growth a bit more than currently expected.

Assumptions in our base case

EU (Belgium, France, Germany, Ireland, Italy, Netherlands and Portugal)

In the first quarter, there were 88% fewer tourists from the EU compared to the first quarter of 2019. For the second quarter, we expect a slight improvement (we assume that the number of EU tourists in April, May and June is at 20%, 30% and 40%, respectively, of the level in 2019). In the third quarter, we expect a large increase due to the improved health situation and the EU certificate, with a further improvement in the fourth quarter (we assume that the number of EU tourists in the second and third quarters is at 75% and 90%, respectively, of the level in 2019).

UK

In the first quarter, there were 98% fewer tourists from the UK compared to the first quarter of 2019. For the second quarter, we expect a slight improvement in April and May, and a large improvement in June on the back of Spain being added to the UK's 'green' list (we assume that the number of British tourists in April, May and June is at 5%, 15% and 75%, respectively, of the level in 2019). In the third quarter, we expect the situation as that seen in June will continue, while the fourth quarter is likely to see a further improvement (we assume that the number of British tourists in the second and third quarters is at 75% and 90%, respectively, of the level in 2019).

Rest of the world

In the first quarter, there were 92% fewer tourists from the rest of the world compared to the first quarter of 2019. For the second quarter, we expect a marginal improvement (we assume that the number of tourists from the rest of the world in April, May and June is at 10%, 15% and 20%, respectively, of the level in 2019). In the third quarter, we expect an increase and a further improvement in the fourth quarter (we assume that the number of tourists from the rest of the world in the second and third quarters is at 40% and 70%, respectively, of the level in 2019).

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michieltukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com