

# SPAIN: FEARS GROW AS TOURISM SLOWDOWN CONTINUES



The latest figures showing drops in arrivals, expenditure, overnight stays, and occupancy rates during the summer, a season regarded as the most important time of the year for tourism, reflect a change in trend for this sector in Spain. The current tourism slowdown demands changes that place focus the sector's attention beyond influx records. Otherwise, the situation may end up becoming a burden on economic growth and creation of job opportunities.

This summer, many Spanish hoteliers have opted to launch promotions and reduce margins due to the difficulty of hanging a 'sold out' sign on their doors. **The strategy, recovered after years of economic drought, aims to create a change in the exponential trend that until now tourism was able to maintain**, which in 2017 beat its sixth historic maximum, with 82 million tourist arrivals.

The tourism slowdown is one of the multiple signs of exhaustion in the sector, which added to the moderation of other economic indicators, threatens to have a negative impact on the economy's growth. Since January, the number of foreign visitors has barely increased by 0.3%, and in summer, when a rise in arrivals was expected like a breath of fresh air, the declines became more prominent. Figures for the month of July register the biggest drop in arrivals of the last eight years, and this confirms the fears of the government, which anticipates that the sector could financially close the year with a "very moderate growth, zero or negative."

There are many reasons why tourism is hitting the brakes. The recovery of competing countries as attractive destinations, the good weather conditions in northern countries, the political instability of Catalonia ...

"Add it all up, put it in a cocktail shaker, and what you get is a tourism slowdown," says José Luis Zoreda, executive vice president of Exceltur, the association for tourist excellence that brings together entrepreneurs from all over the sector. "That does not mean a collapse," he explains "but a return to moderate rates".

As it happens in the foreign sector, tourism has been a bulwark of economic recovery, and today its weight in the country's GDP exceeds 11%. Therefore, the tourism slowdown is worrisome. "It's the first time that tourism activity has grown below GDP rates," adds Zoreda. This is a different scenario when compared to the exceptional quarter of 2017, where tourism GDP growth rose to 5%. This year, the forecast is well below that figure, set at a 1.5%.

For Miguel Cardoso, Chief Economist for Spain at BBVA Research, one of the main impacts of the

slowdown in this sector for the economy “is its high incidence on the job market”. More than 2.6 million workers depend on tourism. Therefore, if tourism increases, the job opportunities will increase significantly. But if it falls, the consequences can be alarming. One of the proofs can be seen in the August affiliation data, which registered its biggest drop since 2008.

Faced with an even larger competition, companies prefer to reduce prices and continue to attract tourists. In fact, Cardoso believes that, in the absence of discounts, “the drop in tourist arrivals could have been even greater”. But this new approach of many entrepreneurs will also have an impact on the economy. “This has a negative impact on investment prospects for the future. For example, if employers sacrifice margins, they will reduce the resources available to build new hotels,” adds Cardoso.

The situation could worsen next year, due to the alarming price competition with other countries. Turkey has not only recovered its 2011 levels, but the country could reach 40 million arrivals by the end of the year. The devaluation of the Turkish lira, of almost 60% in August, will have a “significant impact” this year, according to experts, since most of the reservations were already made.

The problem is that tour operators are already putting Turkey back in the catalogs, and not only are the tourists less fearful of traveling there, **but the prices are almost 50% cheaper than before**. The strategy of many tour operators, who are already trying to reserve accommodations and rooms at current prices, is that they use this as an argument for Spanish hoteliers to lower their rates and, depending on the level of differentiation, they agree to do so.

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