

EUROZONE: "HAVE MONEY, WILL TRAVEL"

Since last weekend, the summer holiday season has really started and based on media reports as well as business surveys, activity in the tourism sector should be strong. Pent-up demand probably plays an important role, considering that tourism expenditures and nights spent in hotels are still below pre-Covid-19 levels. Another factor is the strong rebound in consumer confidence on the back of a more positive assessment of the economic outlook and the personal financial situation as well as a more benign view on the inflation outlook. The stock of excess savings accumulated during the lockdown may also play a role as well as changes in the allocation of household spending. Going forward, the outlook will probably be more challenging.

Since last weekend, the summer holiday season has really started. As usual, media report about record traffic jams on the highways towards holiday destinations and people queuing in airports.

The tourism sector has high expectations. Back in May, Reuters reported that early bookings suggested that Italy, Spain, Greece and Portugal could receive record tourism revenues this year¹. Business surveys by the European Commission show that in the sectors 'accommodation', 'food and beverage service activities' and 'travel agency, tour operator reservation service and related activities', only a low percentage of respondents consider insufficient demand as weighing on their activity (chart 1). This implies a very positive assessment of the business situation, which hasn't been as good since 2007, a year before the global financial crisis².

As mentioned in the Reuters article, pent-up demand probably plays an important role. Chart 2 shows that, although rebounding strongly, the number of nights spent in hotels in Germany, Spain, France and Italy is still below the pre-Covid-19 level³. In 2021 -the latest data that are available- tourism expenditures (irrespective of the destination) of EU citizens were still significantly lower than before the pandemic (chart 3). Another potential factor is the strong rebound in consumer confidence after reaching a trough in September 2022 on the back of a more positive assessment of the economic outlook and the personal financial situation.

In addition, consumers expect less of a headwind coming from inflation over the next twelve months. The stock of excess savings accumulated during the lockdown may also play a role. According to recent research, this stock is largely depleted in the US whereas in France, Germany, Italy and Spain, it remains significant at around 3% of GDP⁴.

Finally, there may be a shift in spending patterns, whereby increased tourism expenditures come at the detriment of other types of spending. In the US for instance, the latest household spending survey shows that over the next twelve months the median household expects slower growth in the various spending categories but the growth of recreation expenditures would remain stable⁵. However, it is not clear that this applies to the Eurozone as well considering that the intentions to make major purchases have improved significantly in recent months, according to the European Commission consumer survey.

FACTORS LIMITING BUSINESS: DEMAND (% , S.A.)

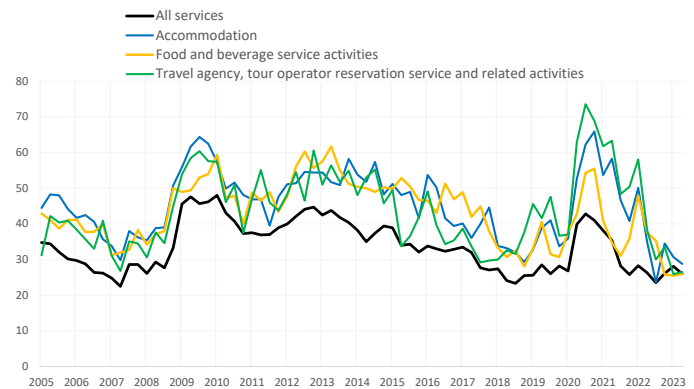


CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

NIGHTS SPENT AT TOURIST ACCOMMODATION ESTABLISHMENTS

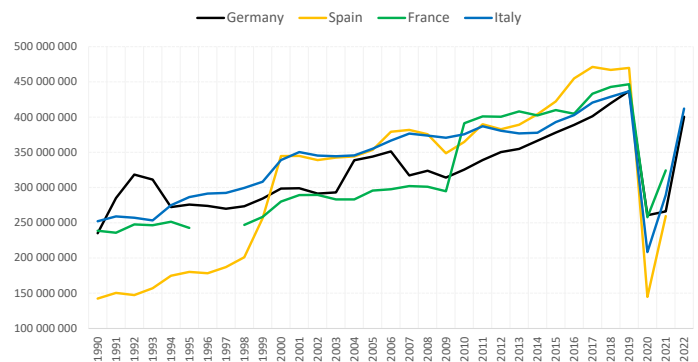


CHART 2

SOURCE: EUROSTAT, BNP PARIBAS

¹ Source: Pent-up demand promises record tourism season for southern Europe, Reuters, 19 May 2023.

² Chart 1 also shows the positive assessment in the services sector in general.

³ Data for France and Spain are only available until 2021.

⁴ Source: François de Soyres, Dylan Moore and Julio Ortize, Accumulated savings during the pandemic: an international comparison with historical perspective, VOXEU Column, 5 July 2023. The authors are researchers at the Federal Reserve Board.

⁵ Source: Federal Reserve Bank of New York, SCE Household spending survey, April 2023.



Going forward, the outlook will probably be more challenging, driven by a waning influence of pent-up demand, a decline in the stock of excess savings and a prospect of stagnating economic growth in the second half of the year and the start of next year that should weigh on consumer spending and its allocation.

William De Vijlder

EUROPEAN UNION (27): TOURISM EXPENDITURES ALL DESTINATIONS (EXCLUDING DURABLES AND VALUABLE GOODS)

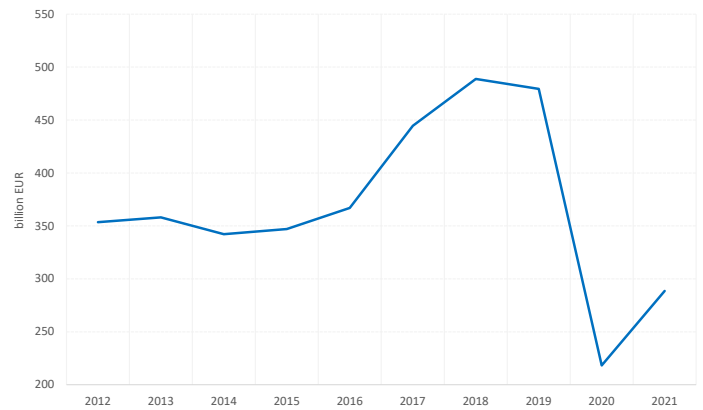


CHART 3

SOURCE: EUROSTAT, BNP PARIBAS



Pent-up demand, a rebound in consumer sentiment on the back of lower headline inflation and the stock of excess savings are key factors underpinning the travel plans of Eurozone households.



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