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Spain cuts holiday prices to lure visitors

Country aims to boost profitability and may rely on big spenders like Germany

Spain's tourist sector is slashing prices to win back visitors after a fierce recession and may rely on bigger spending German consumers if it is to return to profitability next year.

A slow recovery in global markets has brought the tourists back this year, filling beaches and hotels. But more holidaymakers in a sector worth 11 per cent of Spanish GDP has not yet translated into profitability.

That will mean the sector will weigh on economic performance for the third year in a row — gloomy news for a country whose economy grew just 0.2 per cent in the second quarter with many analysts forecasting a slip back into contraction to come.

Trady body Exceltur has revised upwards its forecasts, forecasting tourism GDP to fall by 0.6 per cent this year, which would be the third year of contraction but some way off the 5.6 per cent fall seen in 2009, with the prospect of further improvement to come.

But any boost to state coffers will be modest even if tourism returns a profit in 2011.

"We may see some rebound in profitability next year, but it would be coming from a low base," said Joaquin Garcia-Romanillos, analyst at Banco BPI.

Dramatic turnaround

He said the sector would unlikely see a dramatic turnaround given it depended significantly on domestic spending which would not pick up sharply next year.

"Any improvement will be mostly driven by foreigners and the key will be how the sector attracts them, as it can't keep cutting prices."

While visitors from key markets in Germany and the UK are returning, they are spending cautiously. In turn, Spain has been forced to offer low rates so they don't go elsewhere.

Seven million tourists came to Spain in July, the highest number for nearly two years, yet a breakdown showed that while Germans increased their spending by 6 percent from the same month a year ago, it fell among Britons by 3.4 percent, who make up the largest percentage of visitors to Spain.

The pound's weakness against the euro may be a factor there.

While tourism spending has increased by almost 1.0 percent in the first seven months of the year, hotel prices have fallen for nearly two years, and a reversal of that trend would be needed if the sector were to make a profit again.

Transitory year

Government body Tourspain, part of the tourism ministry, was cautiously optimistic.

"This year will be a transitory year after a very difficult year in 2009. On average companies are still having to lower their costs. But we are working towards a sector that will be profitable again. For 2011 we are cautious, but companies are seeing an improvement," said Antonio Bernabe, head of Tourspain.

On the coasts that view seemed to be shared.

"The general trend in rental prices has been lower this summer ... people coming to rent have negotiated slightly lower prices. But this has given us in the end full occupancy, so overall it balances out," said Jose Luis Pradillo who runs a number of holiday homes in Calpe on the east coast of Spain.

Price slashing throughout the industry comes as Spain tries to promote shopping, gastronomy and hiking to attract higher spending tourists.

Analysts say Spain's tourist industry must reinvent itself as it cannot compete with cheaper 'sol y playa' (sun and beach) offers in destinations such as Egypt and Turkey.

"More people are coming in as we've seen a recovery in Germany and the UK, but prices are still falling and that is not a strategy that can work in the medium term," said Jose Luis Zoreda, chief executive of trade body Exceltur.

"Our future is to move up two steps and reposition towards areas that are more sustainable in terms of prices and focus on the diversity that Spain has to offer -- its cities, the culture and history."

Part of that may well have to come from new sources of visitors. Prime Minister Jose Luis Rodriguez Zapatero was keen to play up the country's attractions when he visited China last week with the soccer World Cup in hand.

But for now a pick-up in the sector is conditioned on an ongoing improvement in key markets such as Germany and the UK.