

Sectors and Industries

Mexico becomes established as one the top ten global tourist destinations

Alma Martínez

World tourism has continued to grow in spite of the global economic uncertainty

In 4M15 (the opening four months of 2015) tourist arrivals across the world¹ increased by an annual 4.4%, which means sustained progress if we compare this with the rises of 4.2%, 4.7% and 4.3% that were observed in 2012, 2013 and 2014 respectively. It is worth noting that the 1,133 million international travellers the world over in 2014 represented the largest number of tourists in history. The annual variations for this indicator were above the long-term average (annual growth of +3.3%) and over 4M15 the growth expectations of between 3% and 4% for the whole of 2015 were surpassed.

By region, international visitors to the Americas showed growth of 8% in 2014 and 6% in 4M15, the highest of all the regions as classified by the UNWTO (World Tourism Organization). In 2014 most tourists arrived at their destinations by air (54%), while the remaining 46% travelled using overland transport. Similarly, tourists travelling on holiday or for recreational or leisure purposes represented 53%, while 14% said they were travelling on business or for professional reasons, 27% cited other motives, such as visiting friends or relatives, or religious or health grounds, while the remaining 6% did not specify the reason for their visit.

Table 1
International tourist arrivals worldwide, 2014

	2014		Change (%)			
	Million Arrivals	Market share	2012	2013	2014	Jan-apr 2015
World	1,133.0	100.0	4.2	4.7	4.3	4.4
America	180.9	16.0	4.5	3.1	8.0	6.0
Europa	581.7	51.3	3.9	4.9	2.7	4.9
Asia and the Pacific	263.3	23.2	6.9	6.8	5.4	4.4
Middle East	51.1	4.5	-5.7	-2.7	5.4	4.2
Africa	55.8	4.9	4.8	4.7	2.6	-5.6

Source: BBVA Research with World Tourism Organization (UNWTO) data

Table 2
International tourist arrivals worldwide (million persons)

Ranking 2014	2012	2013	2014	Chge % 14/13
World	1038.0	1087.0	1133.0	4.3
1 France	82.0	83.6	83.7	0.1
2 United States	66.7	70.0	74.8	6.9
3 Spain	57.5	60.7	65.0	7.1
4 China	57.7	55.7	55.6	-0.2
5 Italy	46.4	47.7	48.6	1.9
6 Turkey	35.7	37.8	39.8	5.3
7 Germany	30.4	31.5	33.0	4.8
8 United Kingdom	29.3	31.1	32.6	4.8
9 Russian Federation	25.7	28.4	29.8	4.9
10 Mexico	23.4	24.2	29.1	20.2
11 Hong Kong (China)	23.8	25.7	27.8	8.2

Source: BBVA Research with UNWTO data

¹ Only visitors staying overnight are considered

Mexico marked a return to a top-ten ranking among international tourist destinations worldwide in 2014 by number of arrivals, while in terms of receipts it was placed 22nd

In the ranking for international tourist arrivals in 2014, there was only one change among the top ten destination countries. Mexico climbed five places and rejoined the world's top ten tourist destinations after receiving 29.1 million international travellers. This figure represented a 20.3% increase on 2013, which is the biggest jump among the top ten for arrivals globally. In terms of receipts, there were two changes among the top ten, as China and the United Kingdom rose two places to third and seventh respectively. Consequently, France and Macao (China) each dropped one place, to fourth and fifth respectively. Meanwhile Thailand slipped back two places to ninth. In terms of overall international tourism receipts, Mexico was 22nd in the 2014 world ranking (see Table 3).

Global receipts and expenditure generated by international tourism

In 2014, receipts from expenditure by international visitors on accommodation, food and drink, and entertainment, shopping and other goods and services reached USD1.245trn, which represented a real 3.7% rise with respect to 2013. The changes in international tourism receipts are not merely a reflection of relative results, but are also to a great extent indicative of the exchange rate fluctuations of a country's currency against the dollar. Receipts of this kind for host countries can be recognised in the accounts as exports that represent a key source of foreign exchange, which creates jobs and therefore affords new opportunities for development. Likewise, as an export category and on a worldwide scale, tourism is ranked fourth, after fuels, chemical products and foods.² Moreover, tourism is ahead of the automotive industry, while in many developing countries tourism ranks first. For Mexico, tourism was the third most fruitful source of foreign exchange after the automotive industry and remittances in 2014.

With respect to tourist expenditure abroad (outbound tourism), in 2014 the vast majority of international trips took place within travellers' own regions, and four out of five arrivals worldwide originated from the same region. China has kept up its exceptional pace of growth, lifting its spending by 28.2% in 2014, taking this up to a total of USD165 billions.

² World Tourism Organization (UNWTO) in Tourism Highlights, 2015 Edition

Table 3
International tourism receipts (USD billions)

Ranking 2014	2012	2013	2014	Chge % 14/13
World	1,115.0	1,197.0	1,245.0	4.0
1 United States	161.2	172.9	177.2	2.5
2 Spain	58.2	62.6	65.2	4.2
3 China	50.0	51.7	56.9	10.1
4 France	53.7	56.7	55.4	-2.3
5 Macao (China)	43.9	51.8	50.8	-1.9
6 Italy	41.2	43.9	45.5	3.6
7 United Kingdom	36.6	41.0	45.3	10.5
8 Germany	38.1	41.3	43.3	4.8
9 Thailand	33.9	41.8	38.4	-8.1
10 Hong Kong (China)	33.1	38.9	38.4	-1.3
22 Mexico	12.7	13.9	16.3	17.3

Source: BBVA Research with UNWTO data

Table 4
International tourism expenditure (USD billions)

Ranking 2014	2012	2013	2014	Chge % 14/13
World	1,115.0	1,197.0	1,245.0	4.0
1 China	102.0	128.6	164.9	28.2
2 United States	100.3	104.7	111.7	6.7
3 Germany	83.6	91.4	92.2	0.9
4 United Kingdom	51.5	52.7	57.6	9.3
5 Russian Federati	42.8	53.5	50.4	-5.8
6 France	40.0	42.9	47.8	11.4
7 Canada	35.0	35.2	33.6	-4.5
8 Italy	26.4	27.0	28.5	5.6
9 Australia	28.1	28.6	26.3	-8.0
10 Brazil	22.2	25.0	25.6	2.4
30 Mexico	8.4	9.1	9.7	6.6

Source: BBVA Research with UNWTO data

International tourism in Mexico is performing well

In the wake of the deep crisis which beset the tourism sector over 2009-11 (as a result of the 2009 economic crisis and the flu epidemic), the industry is currently going through happier times, at least as regards its international component. Even though the improvement in Mexico's tourism sector began midway through 2012, it was not until 2014 that activity livened up considerably, reaching a rate of 3.5% in 1Q15.

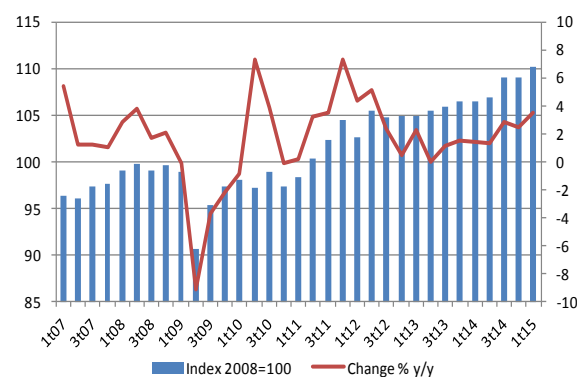
On the other hand, we should recall that tourism-related activities in Mexico have a blanket impact on the services sector GDP, with notable contributions in the areas of passenger transport; restaurants, bars and nightspots; government activities; and tourist trade, and hotel and motel accommodation services. In 2013, the tourism sector contributed 8.7% of overall GDP and this percentage marked a return to 2007 levels prior to the 2009 global crisis.

Table 5
GDP structure of key tourist activities in Mexico

	2007		2013	
	Tourism sector	Economy	Tourism sector	Economy
Tourism sector	100.0	8.7	100.0	8.7
Land transport services passengers	10.2	0.9	11.2	1.0
Services of restaurants, bars and nightclubs	11.1	1.0	9.9	0.9
Government services and other activities	7.8	0.7	9.0	0.8
Tourist trade services	8.9	0.8	8.5	0.7
Services in hotels and motels	8.2	0.7	8.3	0.7
Handicrafts (goods)	4.3	0.4	4.2	0.4
Second homes services	3.7	0.3	3.6	0.3
Aircraft services	1.8	0.2	1.7	0.1
Medical services	1.4	0.1	1.2	0.1
timeshare services (maintenance)	0.6	0.1	0.9	0.1
Travel agencies and tour operators	0.9	0.1	0.9	0.1
Entertainment services	0.8	0.1	0.8	0.1
Artistic and sports services	0.6	0.1	0.6	0.1
Other services	39.8	3.5	39.0	3.4

Source: BBVA Research with data from INEGI Tourism Satellite Account

Figure 1
Tourism GDP in Mexico over time



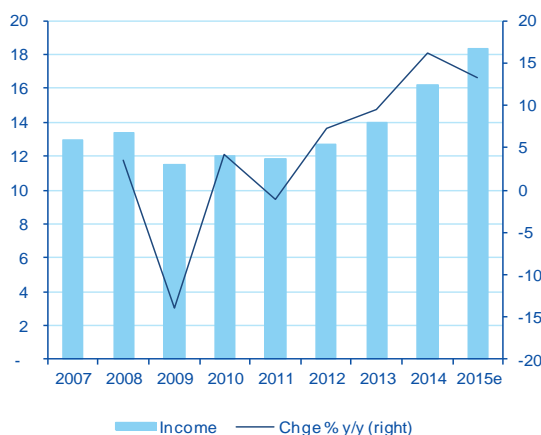
Source: BBVA Research with INEGI data

Key figures on international tourist arrivals in Mexico

In 1H15, international visitor expenditure receipts in Mexico totalled USD9.2 billion. This figure represented an annual 9% increase following an extraordinary rise of 30% in 2014. At the same time, international tourist arrivals in Mexico registered 15.7 million people in 1H15, an increase of 7.6% YoY, while it was also well above the figure of 4.4% reported worldwide in 4M15.

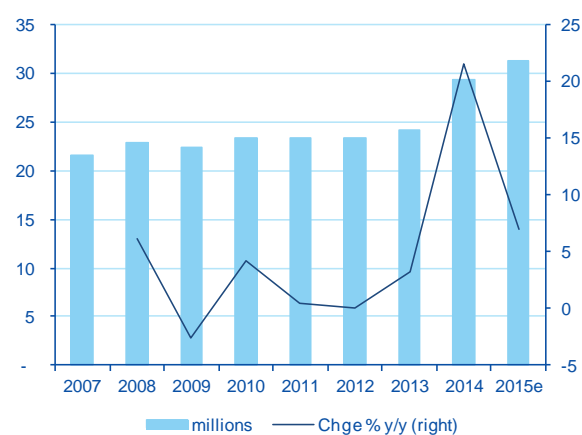
Looking at the average spend by inbound tourists,³ in 2014 this rose by 9.3% YoY, from USD777 in 2013 to USD848 in 2014. The exceptional increase in 2014 was influenced by the tax provision to standardise the VAT rate at borders (from 11% up to 16%), which included Baja California, Baja California Sur and Quintana Roo, these three states providing 84% of revenues. Given that there were no other tax changes in 2015, the average spend by international travellers coming into Mexico in 1H15 was USD865, which was on a par with the amount observed in 1H14.

Figure 2
Foreign exchange from international travellers to Mexico (USD billion)



Source: BBVA Research with Central Bank data e=estimated close e=estimated

Figure 3
International travellers to Mexico (thousand persons)



Source: BBVA Research with Central Bank data e=estimated close e=estimated

After a lengthy period of falls in numbers of cruise passengers visiting the country, this visitor category showed a notable recovery, rising 28% in 2014 and 9% in 1H15. These increases chiefly arose from a heavier flow of arrivals at the Caribbean ports (21% in 2014 and 5.9% in 1H15) and those on the Pacific coast (51.4% in 2014 and 18% in 1H15), which accounted for 71% of total passengers arriving using this mode of transport. On the other hand, in 1H15 the average spend by cruise tourists was USD68, which was less than it had been in either of the two previous years.

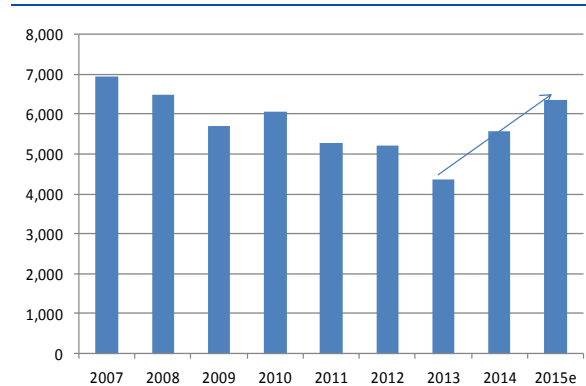
³ Refers to tourists making overnight stays in the country.

Table 6
Average spend by international travellers in Mexico (USD)

	2013	2014	1S15	Chge % y/y	
				2014	1S15
Average spend	178.6	200	213.01	12.0	2.2
International tourists	490.8	488	522.22	-0.6	2.2
Visitors staying overnight	776.8	848.8	864.8	9.3	-0.4
Border	56.5	55.45	59.48	-1.9	7.3
International hikers	38.8	36.53	35.82	-5.9	-4.1
Border	35.2	32.01	31.33	-9.1	-3.7
Cruise	78.6	72.38	68.78	-7.9	-6.7

Source: BBVA Research with Central Bank data 1/ with overnight

Figure 4
International cruise travellers in Mexico (thousand persons)



Source: BBVA Research with Central Bank data e=estimated

Foreign visitors to Mexico arriving by air: nationality

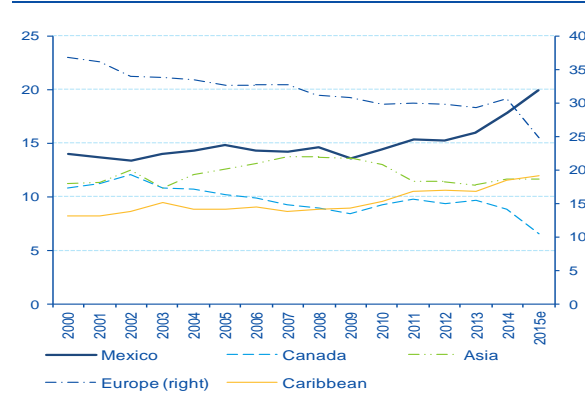
In 1H15, international visitors by air (they represented 95% of inbound travellers) totalled 7.6 million people, which is a rise of 10.7%. This rate was similar to that observed for the same six months in 2014 (10.9%). The number of US citizens flying in during 1H15 grew by 12.5% YoY, which compares favourably with the figure of 13% for the same period in 2014. US passengers entering Mexico were 57.3% of the total who arrived using this mode of transport. Meanwhile, it is estimated that of the total number of US citizens who will have travelled abroad by air in 2015, some 20% will have flown into Mexico. This proportion has been on the rise in the past three years (from 2000-12 it was 14.3% vs. 15.9% in 2013 and 17.8% in 2014). The encouraging pattern in terms of numbers of US tourists travelling to Mexico is likely to be due to the better economic conditions in the United States and the greater preference for making short trips to nearby destinations. On the other hand, within the LatAm region it is most notably visitors from Colombia and Argentina who fly into Mexico, while from Europe, it is the UK which stands out, supplying the third most visitors to the country.

Table 7
Nationality of international visitors to Mexico by air (million persons)

Rank	Nationality	January-June			Market Share, %			Chge. % 2015 /2014
		2013	2014	2015	2013	2014	2015	
1	United States	3.45	3.90	4.38	55.4	56.5	57.3	12.3
2	Canada	1.00	1.06	1.10	16.0	15.3	14.3	3.6
3	United Kingdom	0.19	0.20	0.23	3.1	3.0	3.0	12.3
4	Colombia	0.11	0.14	0.19	1.8	2.1	2.5	33.4
5	Argentina	0.15	0.13	0.17	2.4	1.9	2.2	27.7
6	Brazil	0.13	0.14	0.17	2.1	2.1	2.2	15.7
7	Spain	0.12	0.14	0.14	1.9	2.0	1.9	5.2
8	France	0.11	0.11	0.12	1.7	1.6	1.5	6.2
9	Germany	0.09	0.10	0.11	1.5	1.5	1.4	6.5
10	Italy	0.07	0.08	0.08	1.2	1.2	1.1	2.9
11	Perù	0.06	0.06	0.07	1.0	0.9	1.0	19.3
	Other	0.74	0.83	0.88	11.8	12.0	11.5	5.9
	Total	6.23	6.91	7.64	100.0	100.0	100.0	10.7

Source: BBVA Research with Tourism Ministry data

Figure 5
US visitors abroad by air, destination zones (breakdown, %)



Source: BBVA Research with International Air Travel Statistics data

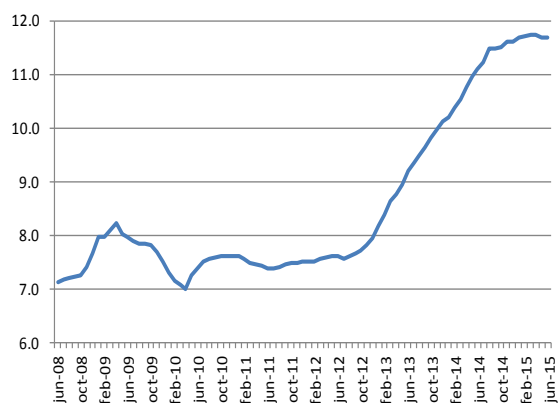
Principal states where foreign tourists arrive

As of 1H15, 43% of US visitors entering by air landed in Cancún, Quintana Roo, followed by Mexico City with 13.1% and Los Cabos, Baja California Sur, with 12.8%. On the other hand, 55.6% of Canadian citizens landed in Cancún, followed by 18.4% in Puerto Vallarta, Jal, whereas 78% of British travellers landed in Cancún, Q.Roo and 10.5% in Mexico City. The preference for the Mexican Caribbean is hardly surprising, given that it is world famous for its excellent beaches, the rich assortment of its tourist options, the care for its natural resources, safety, connectivity, infrastructure and services.

International tourist arrivals involving stays at hotels in Mexico

As of June 2015, the number of tourist arrivals at hotels (this only includes 70 destinations that were monitored) totalled 11.7 million. This meant an increase of 0.5% in annualised terms, although such a modest variation was influenced by a high base for comparison. From when the shift towards a positive trend became observable (October 2012) to now (June 2015) the number of arrivals at hotels has grown by approximately 35%. By principal destination, there are three zones which receive the highest proportion of international tourist arrivals at Mexico's hotels, namely the Mexican Caribbean, with 54.6%, followed by Mexico City, with 11.2%, and Los Cabos with 11%. This last destination shows a drop in its flow of international arrivals at hotels, which is as a result of the loss of hotel and communications infrastructure brought about when hurricane Odile swept through last September. In spite of this, most of the rooms used for accommodation have been brought back into service and so arrivals at hotels in Cabos, BCS will soon see positive growth rates again, while the supply of hotel rooms in the zone is set to be increased by more than 3,000 in the next three years.

Figure 6
International tourist arrivals in Mexico involving hotel stays (million persons, 12mma)



Source: BBVA Research with Datatur Tourism Ministry data
12mma=twelve-month moving average

Table 8
International tourist arrivals in Mexico involving hotel stays by principal destination (breakdown, %)

	International tourists				
	2014			1s15	
	Share, %	Millions pers.	Chge.% y/y	Millions pers.	Chge.% y/y
TOTAL	100.0	18.0	11.0	9.8	0.5
BEACH DESTINATIONS	74.7	13.5	12.1	7.4	-1.8
CARIBE MEXICANO	54.6	9.8	17.4	5.3	0.1
LOS CABOS TOTAL	11.0	2.0	-8.2	1.0	-21.9
ACAPULCO, GRO.	0.6	0.1	-18.0	0.1	-0.4
PUERTO VALLARTA, JAL.	2.7	0.5	21.3	0.4	42.6
NUEVO VALLARTA, NAY.	2.4	0.4	24.7	0.3	14.5
CITIES	25.3	4.6	8.0	2.4	8.2
BIG CITIES	15.2	2.7	17.2	1.4	2.0
DISTRITO FEDERAL	11.2	2.0	17.6	1.0	3.8
MONTERREY, N.L.	2.0	0.4	19.6	0.2	-19.0
GUADALAJARA, JAL.	2.0	0.4	13.0	0.2	14.9
CITIES OF THE INTERIOR	7.8	1.4	-5.6	0.8	12.6
BORDER	2.3	0.4	4.8	0.3	34.7

Source: BBVA Research with Datatur Tourism Ministry data

Conclusions:

The global tourist sector shows some correlation with the economic cycle, although it has proved resilient to low growth, with increases in both tourist numbers and receipts. Mexico has improved its standing in international tourism, returning to a top-ten ranking among the world's principal tourist destinations. Even so, good quality tourist options in Mexico are strongly concentrated within certain Mexican states that have an orientation towards tourism of the sun and beach variety. This makes the country vulnerable as an alternative to highly competitive destinations such as those in the Caribbean (the Dominican Republic, Jamaica, the Bahamas and Cuba) and others slightly further a field, such as Hawaii and Thailand.

On the other hand, the trend of making short-distance, brief trips is an advantage when it comes to attracting US tourism, while it also represents a hindrance in luring tourists to Mexico from places further away, such as, for example, Asia-Pacific. Given such preferences, the prospects of attracting tourism are not very encouraging unless the range of options on offer is diversified to branch into experience-based tourism, recognising that travellers increasingly look for an experience involving contact with the community or nature rather than just a comfortable room. Likewise, tourists have also become more aware of their impact on the destinations which they visit, particularly on the environment. One area of opportunity for Mexico is cultural tourism (Cuba and Peru are the main competitors here), as well as eco-tourism and sustainable tourism.

With respect to indicators for international tourists who come to Mexico, these show positive trends from 2014 to 1H15. This is thanks to a rising and recovering flow of US visitors. Thus, in 1H15 arrivals of international travellers to Mexico increased at higher rates than those observed worldwide (7.6% vs. 4.4%). On the other hand, receipts in this category in 1H15 were up 9% after a figure of 30% in 2014. Similarly over the first half of this year, the average spend by international travellers staying overnight in Mexico was USD865, which is on the low side compared to the figure of USD1,200 for the Caribbean, USD910 in South America or over USD2,000 in the United States. The challenge continues to consist of not only lifting the number of international visitors entering Mexico, but also of getting them to spend more. On the other hand, cruise tourists arriving at Mexico's ports showed a substantial recovery after a long period of decline, up 28% in 2014 and 9% in 1H15. Turning to the number of arrivals by air, these continued to trend positively in 1H15, rising by 10.7% after 10.6% over the same period in 2014.

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