Canada's Tourism Industry: Industrial Outlook

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Executive Summary

Prepared for:
The Canadian Tourism Commission (CTC)

By:

The Conference Board of Canada
Insights You Can Count On

Canadian Tourism Commission
Commission canadienne du tourisme

Background

The *Canadian Industrial Outlook* includes detailed five-year forecasts for 10 key Canadian sectors, including tourism. Outlooks for several financial and economic variables—including prices, production, revenues and expenditures, profits, gross domestic product and employment—are generated, based on forecasts of key domestic and international factors such as economic growth, interest rates, exchange rates and government policy.

The tourism sector is broken down into four industries: transportation, accommodation, food and beverage services, and “other” tourism. These industries are based on spending, employment, price and gross domestic product (GDP) data developed from the Canadian Tourism Commission’s National Tourism Indicators. The data in these categories only include activity that is related to travel. For instance, activity in the air transportation segment does not include cargo. Similarly, data for the accommodation and the food and beverage industries only include normal travel activity. In other words, spending in restaurants by families that is not part of a trip is not included in the analysis. The “other” category includes activities such as attending sporting events, casinos and theatre, as well as spending at travel agencies. Total tourism spending also includes another category that incorporates spending by foreign and domestic visitors in all other industries.

Forecasts of spending in the four industries by both foreign and domestic visitors are obtained from The Conference Board of Canada’s Canadian Tourism Research Institute. These forecasts are based on economic factors that drive tourism activity, including, among others, exchange rates, real disposable income and the economic outlook in Canada’s major travel markets, such as the United States and Japan. Non-economic factors that have an important influence on travel activity, such as wars and disease, are also taken into account when developing the projections. These spending forecasts are then used to come up with estimates of GDP for the four industries in the tourism sector.

The forecasts of GDP combined with projections of price changes in the four categories are used to derive the outlook for revenues in the different travel industries. This implies that revenues can increase as a result of either gains in GDP, which is related to travel expenditures, or price increases, or of a combination of both. Conversely, a slump in travel activity leads to poor revenue growth because of the resulting decline in travel spending and the difficulty that businesses face when attempting to increase prices in a weak economic environment.

The cost portion of the income statement is based on projections of costs in three categories: labour, capital and material. Labour costs are derived from forecasts of employment, productivity and the wage rate, while capital costs are based on factors such as the capital stock, investment spending, depreciation and interest rates. To project material costs, an index was built for each of the four industries based on the proportion of material (e.g., fuel, food) that they require to run their businesses. Forecasts of material costs are then calculated by projecting the indexes after accounting for the impact that productivity growth has on material costs. Profit projections are derived by simply subtracting total costs from revenues.

The forecasts are provided quarterly to the year 2010. They are based on the most recent historical data available from the National Tourism Indicator's database.

The *Canadian Industrial Outlook* is updated twice a year using the Conference Board's econometric and financial model. The publication can be accessed online at www.e-library.ca and, for clients subscribing to e-Data, at www.conferenceboard.ca/edata. For more information, please contact our information specialist at 613-526-3280 or 1-866-711-2262 or e-mail contactcboc@conferenceboard.ca.

Key Issues Affecting the Forecast

Domestic Travel

Domestic travel has improved considerably over the past couple of years and is expected to post another strong year of growth. Underpinning the growth in domestic demand is ongoing strength in consumer confidence and solid economic fundamentals. In fact, real GDP in Canada is on pace to expand 3.1 per cent in 2006.

China

China is already a major source of travel growth for Canada, with the number of visitors up 15 per cent in 2005. China is negotiating the details of approved destination status for Canada, which will allow Chinese residents to travel to Canada on tourist exit visas. This will dramatically reduce the regulatory hurdles for Chinese residents wishing to visit Canada, leading to even stronger growth.

Western Hemisphere Travel Initiative (WHTI)

Although there is a possibility that the implementation date for the WHTI may be delayed, it is clear that the border between Canada and the United States will be tightened in the coming years. At this point, all projections suggest the WHTI will reduce the number of visitors entering Canada from the United States, though the effects will be partially offset by some Canadian travellers choosing to remain in Canada as well as increasing yields from U.S. travellers.

Increased Global Competition for Travellers

Global competition for travellers continues to erode Canada's traditional travel markets, particularly the United States market. The combination of more and more countries developing their tourism industries, growing investments in marketing and improving air access will continue to draw an increasing number of travellers to international destinations other than Canada.

Report Highlights

Canada's tourism sector continues to perform well with real spending on total tourism increasing by 3.8 per cent last year. However, the healthy top-line number masks two different underlying stories. On the one hand, domestic spending performed very well, thanks to the resurgence of the demand for domestic travel. On the other hand, weakness from the United States is weighing down otherwise very healthy foreign spending.

On the domestic front, real spending on tourism rose by 5.9 per cent in 2005, its strongest showing since 2000. Driving this increase was strong growth in spending on transportation, particularly air transportation. Demand in the "other" tourism industry also grew strongly, at 5.4 per cent in real terms, the result of large increases in spending on recreation and entertainment, as well as pre-trip expenditures.

By comparison, real foreign travel spending registered a decline of 1.3 per cent last year, largely because of the struggling U.S. market. Meanwhile, overnight visits from other international destinations to Canada increased by close to 7 per cent last year, with equally significant gains in tourism related expenditures. But, because visitor spending from the United States accounts for the bulk of foreign tourism spending in Canada, the challenges associated with many segments of the United States travel market have had an outsized impact. The biggest challenge in the U.S. market came from same-day auto travel, which fell by 12.0 per cent last year. Yet, while most travel segments from the U.S. experienced difficulties during 2005, overnight travel by air recorded a modest decline of only 0.5 per cent.

Challenges in the United States market aside, overall tourism demand has continued to grow at a healthy pace and has translated into a strong financial operating performance for the sector. Granted, profitability varied among industries, with the bulk of profits concentrated in the transportation and "other" tourism industries. (The accommodation industry actually lost money in 2005, but only because of unusually high depreciation expenses). Overall, sector profitability is very healthy and, thanks to the strong growth on the domestic front, has reached a record high of $768 million last year.

Looking forward, sector profits will continue to improve this year, but are expected to decline somewhat in 2007 and 2008. One of the main reasons for the decline has to do with the pending implementation of the WHTI, which could significantly reduce visitation from the United States. However, because of increasing yields from United States visitors and continued strength in the domestic market, profits are expected to remain above their 2005 level, even during the implementation phase of the initiative. During the outlying years of the forecast, a gradual recovery from the effects of the WHTI, rising travel spending from new markets and the 2010 Olympics will all contribute rising profit levels. As such, sector profits will reach a new high of $1.1 billion in 2010.