

TOURISM OUTLOOK

FORECAST HIGHLIGHTS

FALL 2022

Canada



Middle Cove Beach

Newfoundland & Labrador

CANADA 

FOREWORD

Given the ongoing evolution of factors impacting travel prospects, Destination Canada (DC) engaged Tourism Economics to assist in updating the Spring 2022 Canadian tourism demand forecast, and this report presents the key findings.

The Fall 2022 Tourism Outlook was conducted between August and September 2022, and the assumptions reflect the operating context of that time.

The Tourism Outlook extends through 2030, covering visits and visitor spending for domestic overnight trips as well as international visitors from the United States (land and air), key overseas markets, and the rest of the world.

Several scenarios were developed to support the forecast:

- **Expected scenario:** This scenario reflects current pandemic, geo-political and economic environment.
- **Upside scenario:** This scenario provides a more optimistic outlook based on more favourable socio-economic and marketing considerations between selected international markets and Canada.
- **Downside scenario:** This scenario reflects a more pessimistic outlook accounting for a deeper and longer impact on the global economy arising from geopolitical events and COVID-19 disruptions.


This outlook does not consider catastrophic scenarios of global magnitude triggered by extreme events.



**DESTINATION
CANADA**



CANADA*

 Columbia Icefields
Alberta

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3. Business Travel



CANADA



Kluane National Park
Yukon



FORECAST HIGHLIGHTS

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 Vancouver Island
British Columbia

While headwinds and tailwinds persist, our recovery trajectory becomes clearer, bolstered by resilience in travel demand

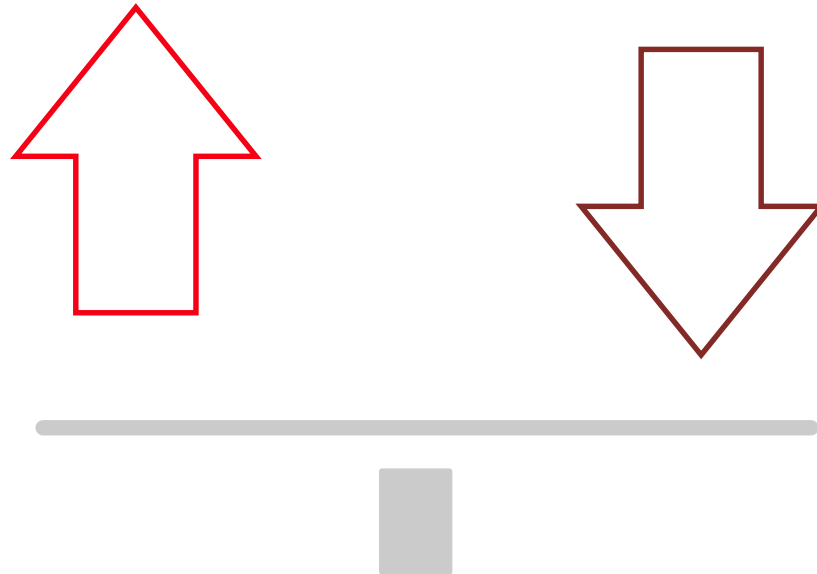


TAILWINDS

Resilient 'essential' travel sentiment

Pent-up demand and resources

Lifting of COVID-19 measures



HEADWINDS

Surging inflationary pressure

Recession on the horizon

Travel disruptions & labour shortages

Russia-Ukraine conflict continues

Travel will recover despite near-term economic and geopolitical setbacks



Slowing economy & rising prices will hinder speed of recovery

- Canada, the US and multiple European countries are expected to enter recession within the next six months
- Inflation continues to outpace income growth, damaging real disposable income
- All major markets are expected to resume economic growth by the second half of 2023



Geopolitical conflict & China's zero-COVID policy weigh heavy

- Ongoing war in Ukraine continues to damage financial markets and drive food & energy prices higher
- Zero-Covid policy in China plus severe outbound travel restrictions will continue to delay a recovery from China in the near term



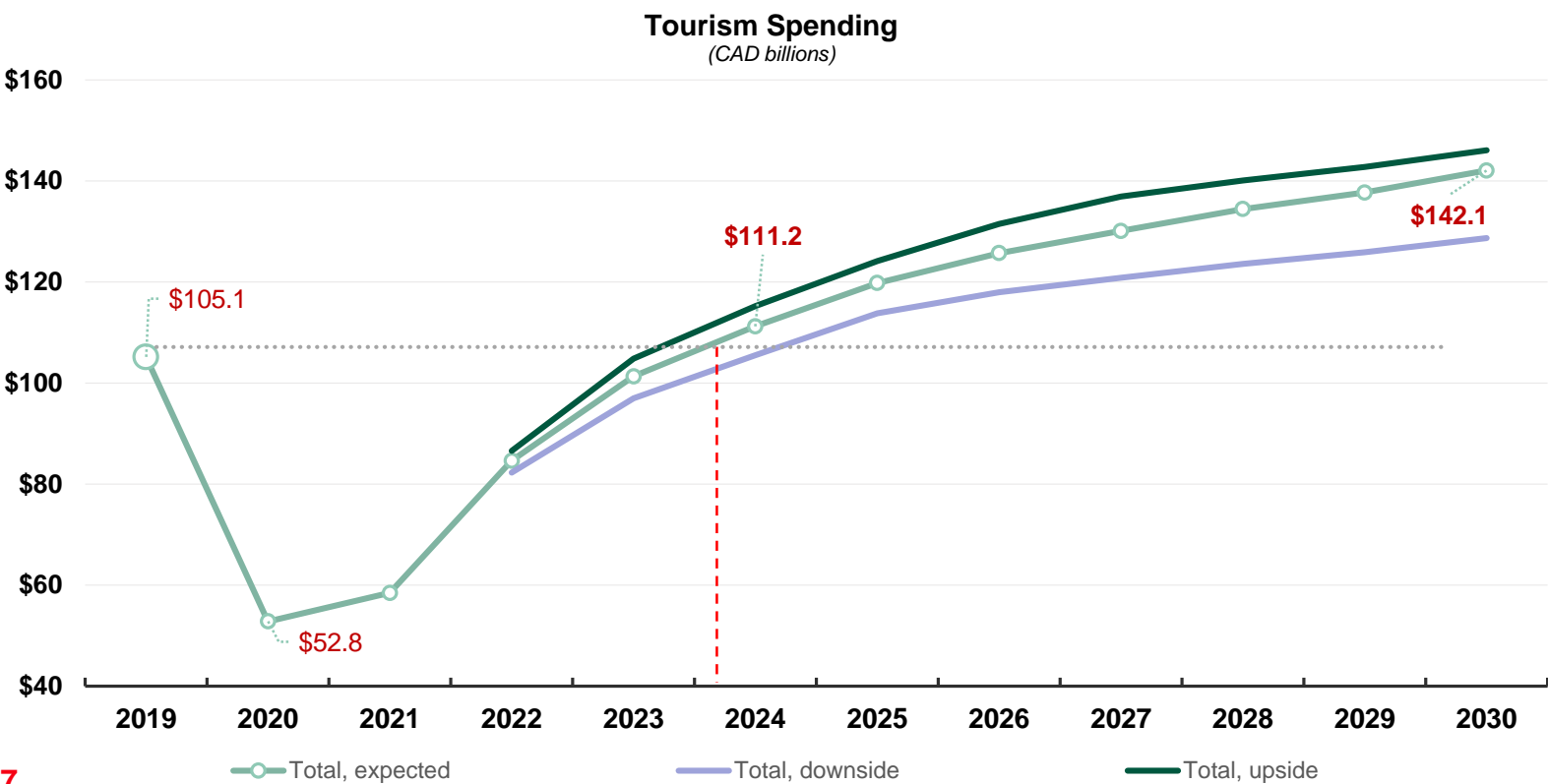
But... the rising tide of travel demand will prevail

- Traveller surveys and consumer data in the US show continued resilience for leisure travel despite higher prices, with cutbacks focused on goods
- Robust air and hotel booking data for the coming months show that corporations are still rebuilding to levels of business travel to support normal operations
- A less expensive Canadian dollar (compared to the US\$), relaxed entry requirements, and geopolitical instability outside of North America will create opportunity for Canada

Recovery to 2019 levels expected in 2024, one year earlier than previously forecasted



Scenario	Loss in 2020	Loss in 2021	Loss in 2022	Return to 2019 level	Annualized growth, 2019 to 2030
Upside	--	--	17%	2023	3.1%
Expected	50%	44%	20%	2024	2.8%
Downside	--	--	23%	2025	1.9%



- **Expected:** Lifting of COVID-19 restrictions (e.g., vaccination requirement to enter Canada) coupled with rebounding leisure travel will accelerate recovery to 2024
- **Downside:** Persistently high inflation and interest rates sapping individual savings could delay recovery to 2025
- **Upside:** Recovery in 2023 with the Russian-Ukraine conflict de-escalating, China re-opening, and a faster easing of inflationary pressures by early 2023
- Canadians continuing to prioritize domestic travel along with strong US interest could provide further momentum to the recovery pace

Spending levels expected to recover by 2024



Tourism spending in Canada, percent relative to 2019

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Relative to 2019	100	50	56	80	96	106	114	120	124	128	131	135
Domestic	100	62	70	92	103	107	113	117	120	123	126	129
United States	100	13	17	52	91	112	120	130	135	140	144	151
Mexico	100	12	14	63	92	120	128	138	145	152	157	161
Germany	100	8	11	50	77	104	124	132	138	146	151	155
France	100	12	19	63	78	92	114	125	132	138	146	153
United Kingdom	100	13	13	60	78	95	118	124	129	136	142	148
Australia	100	16	5	35	80	110	118	124	130	135	142	147
China	100	16	19	18	42	85	108	125	134	144	153	162
Japan	100	12	14	25	53	83	99	115	122	126	130	134
South Korea	100	15	19	27	55	78	97	117	134	142	149	156
Rest of world	100	14	18	53	65	95	111	121	131	137	143	150
	0 – 50%	50% – 75%	75% – 100%	100% – 120%	120 % and higher							

Key findings for tourism spend:

- Domestic spending will fully recover in 2023
- US spending will reach 2019 levels in 2024
- Overseas international will recover in 2025

Factors influencing trajectory:

- Domestic spending remains strong
- US rebound is encouraging, supported by a strong US dollar
- Inflation is resulting in higher costs and increased spending

Visitation expected to recover by 2025

International visits to Canada, percent relative to 2019



	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Relative to 2019	100	13	14	49	76	94	103	112	117	122	125	129
United States	100	13	14	50	82	100	107	115	118	123	126	131
Mexico	100	20	18	69	78	100	106	113	118	121	124	126
Germany	100	10	13	49	66	88	104	109	113	118	120	123
France	100	14	18	61	71	82	101	109	114	118	123	127
United Kingdom	100	11	13	59	72	85	105	109	112	117	121	125
Australia	100	14	3	33	73	98	104	108	112	115	119	122
China	100	13	6	9	38	76	95	108	115	122	128	134
Japan	100	12	5	20	51	79	94	107	113	115	118	120
South Korea	100	13	6	25	49	68	84	100	113	119	123	127
Rest of world	100	16	17	54	64	75	88	102	115	120	123	126

0 – 50%

50% – 75%

75% – 100%

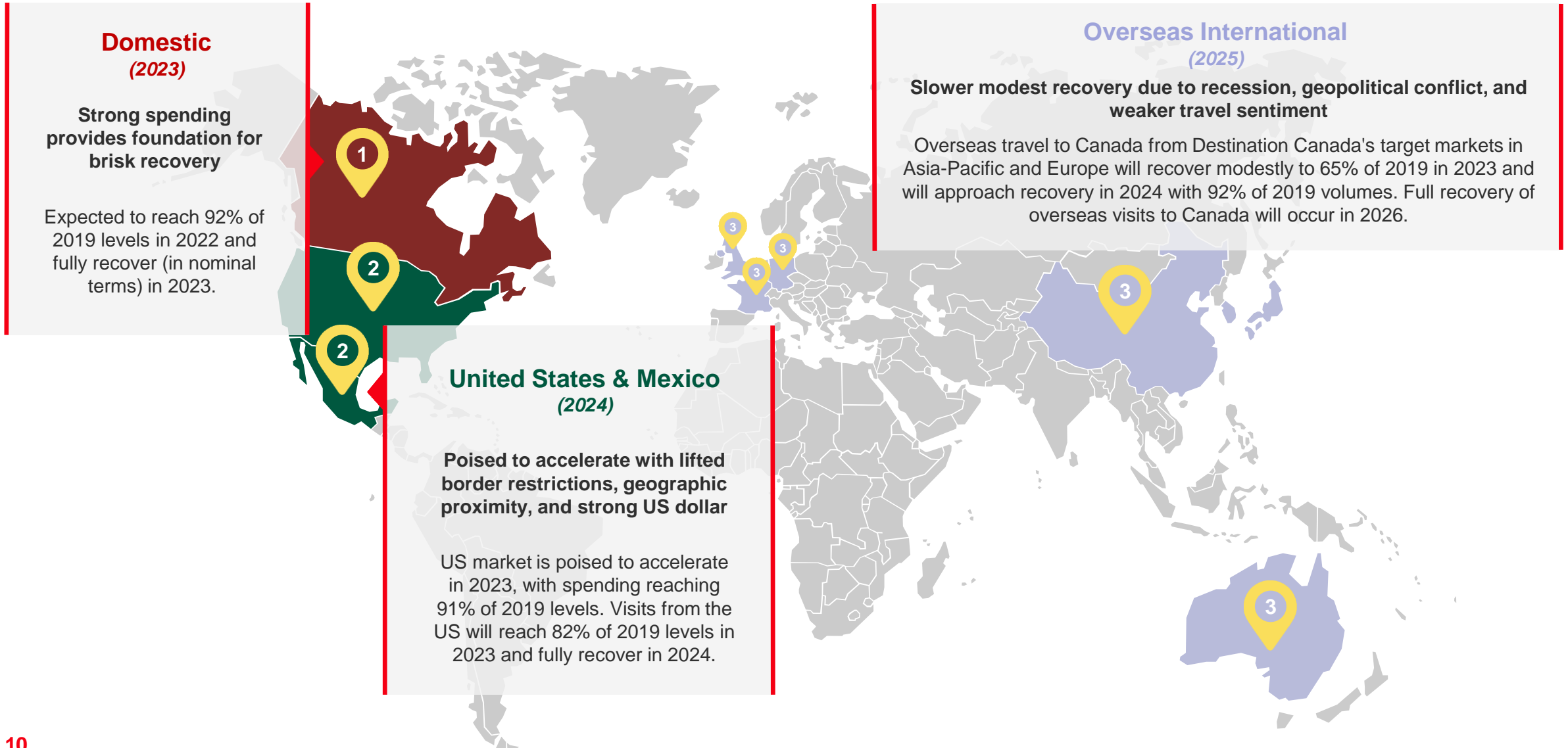
100% – 120%

120 % and higher

Key findings for international visits:

- Price competitiveness and proximity will buoy US travel to Canada throughout the forecast horizon
- US will recover more quickly than overseas markets - reaching full recovery in 2024 with 100% of 2019 visits to Canada
- Overseas markets will recover more slowly with the effects of economic recession (Europe), travel restrictions (China), and weak travel sentiment (Asia) prolonged into 2023
- Overseas travel to Canada will recover modestly in 2023, approach recovery in 2025, with full recovery of overseas visits in 2026

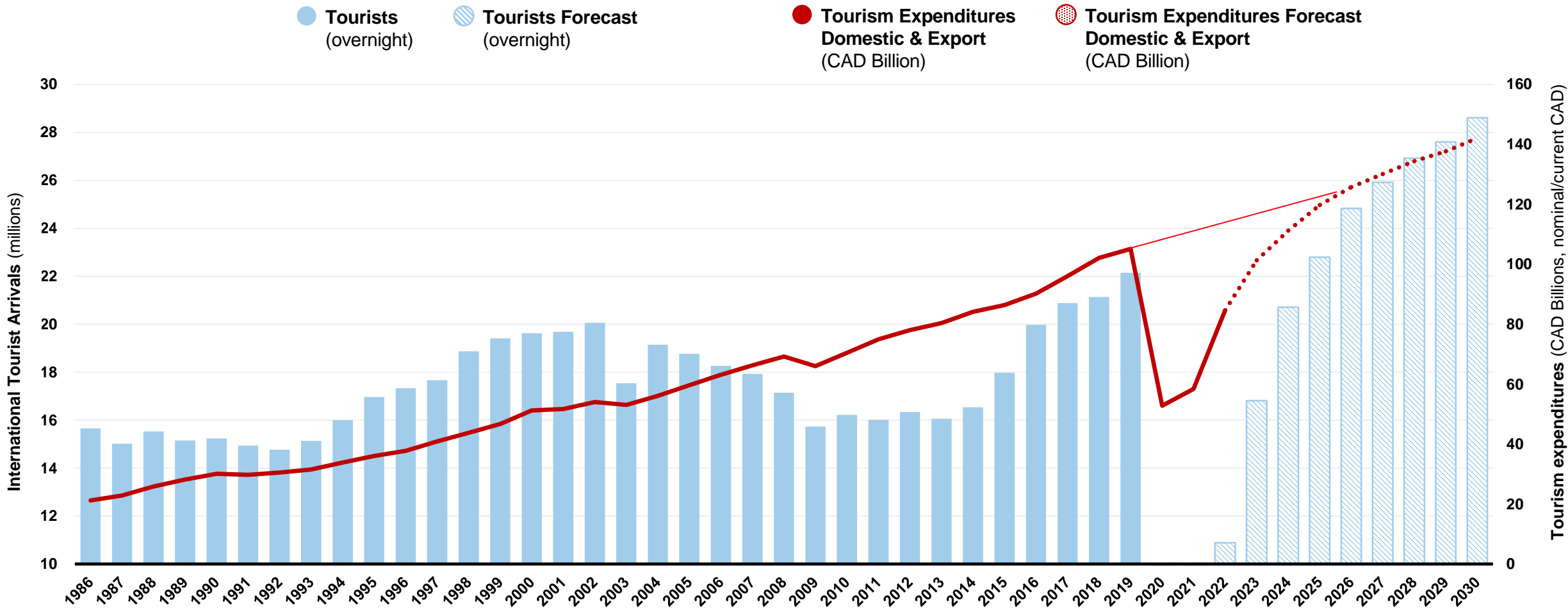
Canadian tourism sector is on the recovery trajectory, domestic will lead with international taking over by 2024/25



Tourist expenditures and international arrivals set to return to long-term growth trend by 2026



Overnight International Arrivals and Total Tourism Expenditures in Canada
(from domestic and international sources)



Key takeaways



Full recovery of tourism spending in Canada is expected **in 2024**. However, **in inflation-adjusted** terms, real Canadian tourism spending will not fully recover to 2019 levels **until 2026**.



Overseas markets are expected to recover more slowly with the effects of economic recession (Europe), travel restrictions (China), and weak travel sentiment (Asia) prolonged into 2023.

Overseas travel to Canada will recover modestly to 64% of 2019 volumes in 2023 and will approach recovery in 2025 with 95% of 2019 volumes. Full recovery of overseas visits to Canada will occur in 2026.



Domestic travel market spending is recovering briskly and is expected to reach 92% of 2019 levels in 2022 and fully recover (in nominal terms) in 2023.



Asian markets, including China, Japan, and South Korea will remain sluggish through 2023 due to an entrenched reluctance to travel long-haul.

However, in the long-term China visitations will outpace other international markets, reaching 134% of 2019 levels in 2030.



The US market is poised to accelerate in 2023, with spending reaching 91% of 2019 levels as lifted border restrictions and a strong US dollar encourage recovery. Visits from the US will reach 82% of 2019 levels in 2023 and fully recover in 2024.



While downside risks to the forecast are notable, Canada is well-positioned to continue its recovery due to a resilient domestic market, competitive regional position, and pent-up demand for both leisure and business travel.

Overall Outlook:






The Canadian tourism sector is experiencing **a strong but extended recovery** following the sharp declines experienced during the COVID-19 pandemic. The downside scenario **delays but does not fully disrupt this recovery**.



SCENARIOS OVERVIEW



Changing external conditions (*past versus current*)

	Spring 2022		Fall 2022
	Pandemic Outlook The most <i>stringent public health restrictions are lifting around the world</i> , including Canada, as pre-arrival COVID-19 testing was lifted on April 1 st .	→	China remains the last country globally still seeking to snuff out Covid transmission. Its <i>“Zero Covid” policy halts outbound travel</i> . Most other major travel markets have decisively liberalized travel.
	Geopolitical <i>Russia invades Ukraine</i> on February 24, 2022. The West isolates Russia through a series of escalating economic sanctions.	→	<i>No resolution</i> to military conflict in Ukraine this year. No meaningful thawing in US and China relations, and trade barriers erected over recent years remain in place amid <i>rising tensions between China and Taiwan</i> .
	Economic The Russia-Ukraine conflict is generating <i>adverse economic conditions</i> including surging oil prices and prolonged inflationary pressure.	→	Global economic sentiment has worsened amid <i>persistently high inflation, its effect on real incomes, and aggressive central bank rate hikes</i> . Mild to moderate recessions are expected across North America and Europe.
	Industry Dynamics <i>Global aviation disruptions</i> from detours in long-haul flights and potential route substitutions. <i>Unfilled jobs in tourism</i> is emerging as a chronic issue amid a tight labour market and an expanding work force in the Canadian economy.	→	<i>Global air travel capacity</i> will be constrained in the near-term due to disruptions in staff shortages. <i>Unfilled jobs in tourism</i> remain a headwind for the Canadian tourism sector, but tight labor markets are beginning to show signs of improvement.
	Consumer & Travel <i>Pent-up demand remains strong</i> despite new uncertainties. However, risk-averse markets may shift travel to destinations perceived to be safer or closer to home. <i>Business travel continues its slow upward</i> trajectory with a growing and careful optimism to plan and book in-person business events.	→	<i>The momentum in travel demand continues</i> this year and next, but the sector faces headwinds from rising travel costs. <i>Relaxed entry requirements</i> for international travel to Canada. COVID-19 vaccine, testing and isolation requirements were all eliminated as of September 30, 2022.

Current recovery scenario is projecting a return to 2019 by 2024, with an upside to 2023



Overall - total tourism spending to Canada from domestic and international sources.



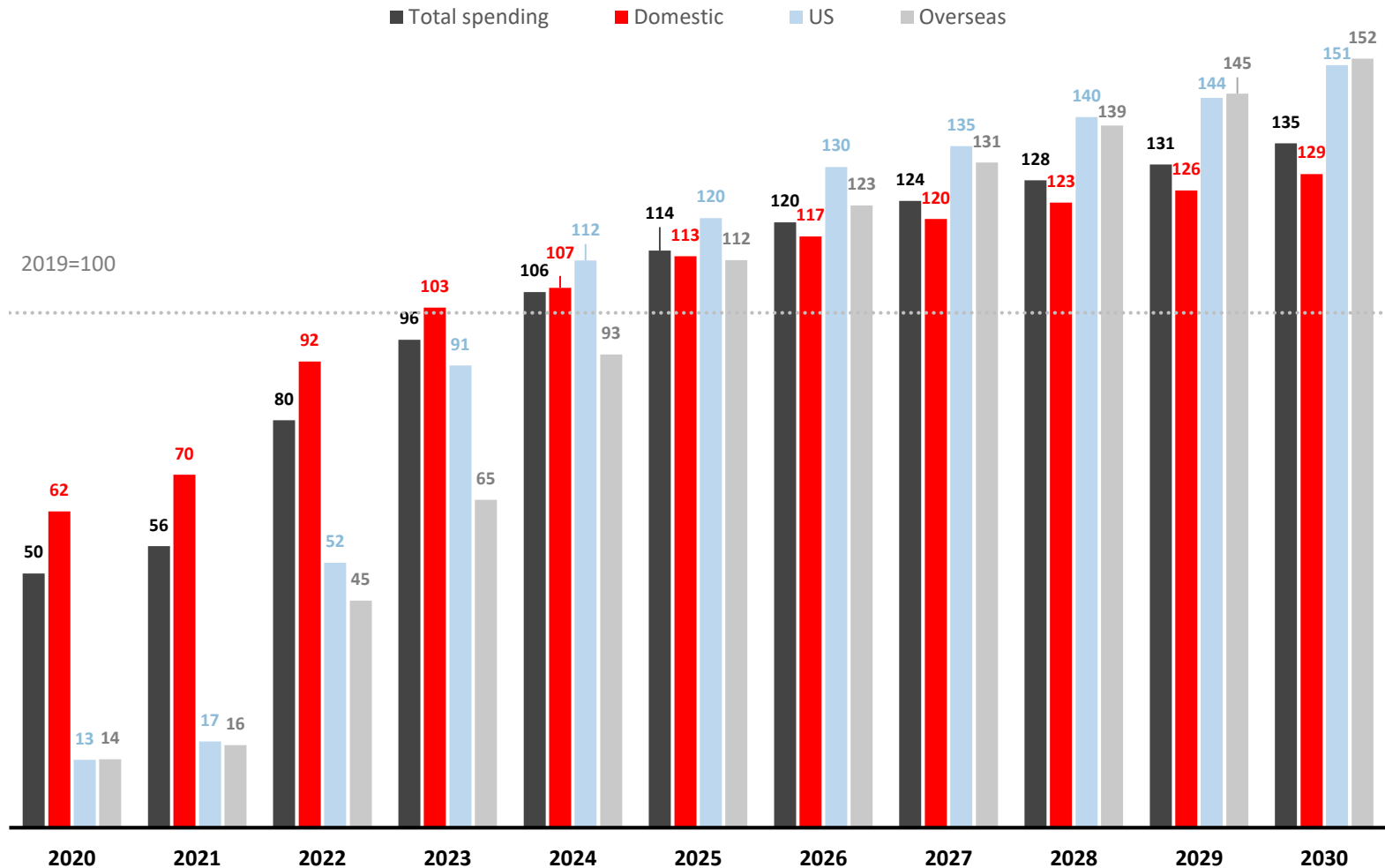
Given the ongoing recovery from low levels of international travel, even the downside scenario anticipates continued recovery for Canada.

However, removing the effects of inflation, which is currently elevated, the underlying pace of tourism recovery is slower.



Domestic travel drives early recovery, strong international travel growth long-term

Total tourism spending in Canada by market, percent relative to 2019 (expected scenario).



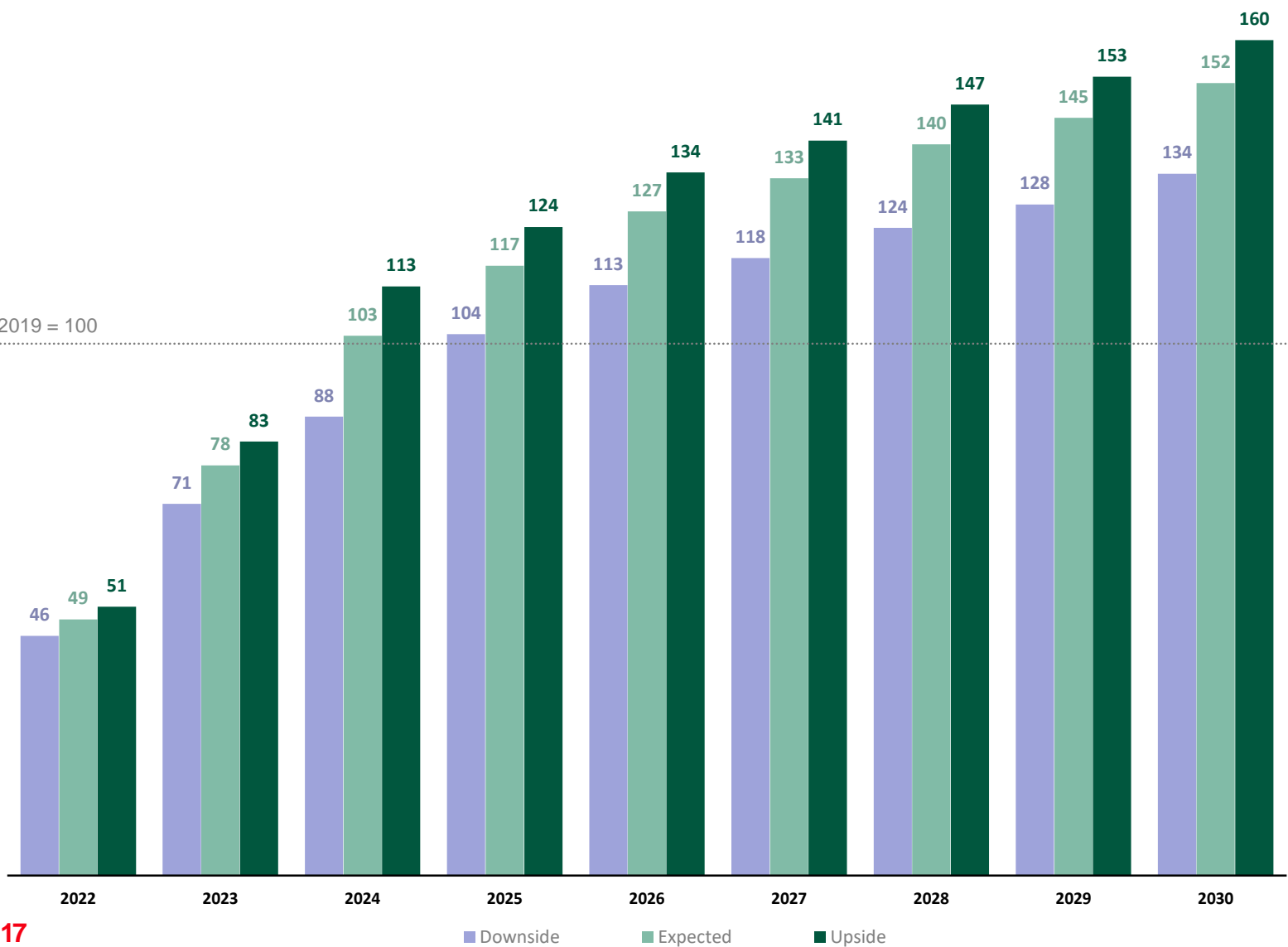
Key findings for tourism spend:

- Domestic tourism spending has been more resilient in the face of pandemic travel restrictions. After reaching 92% of 2019 levels in 2022, domestic tourism spending will fully recover in 2023. The domestic market is expected to continue to expand through a mild recession and reach 129% of 2019 levels by 2030.
- The US will follow, reaching 91% of 2019 spending levels in 2023 and fully recovering in 2024. Relatively stronger economic growth in the US will drive continued expansion of travel to Canada with associated spending reaching 151% of 2019 levels by 2030.
- Overseas tourism spending will recover more slowly in line with visits, recovering to 2019 levels in 2025.

Forecast scenarios summary - International



Total international tourism spending (US and overseas) in Canada, percent relative to 2019



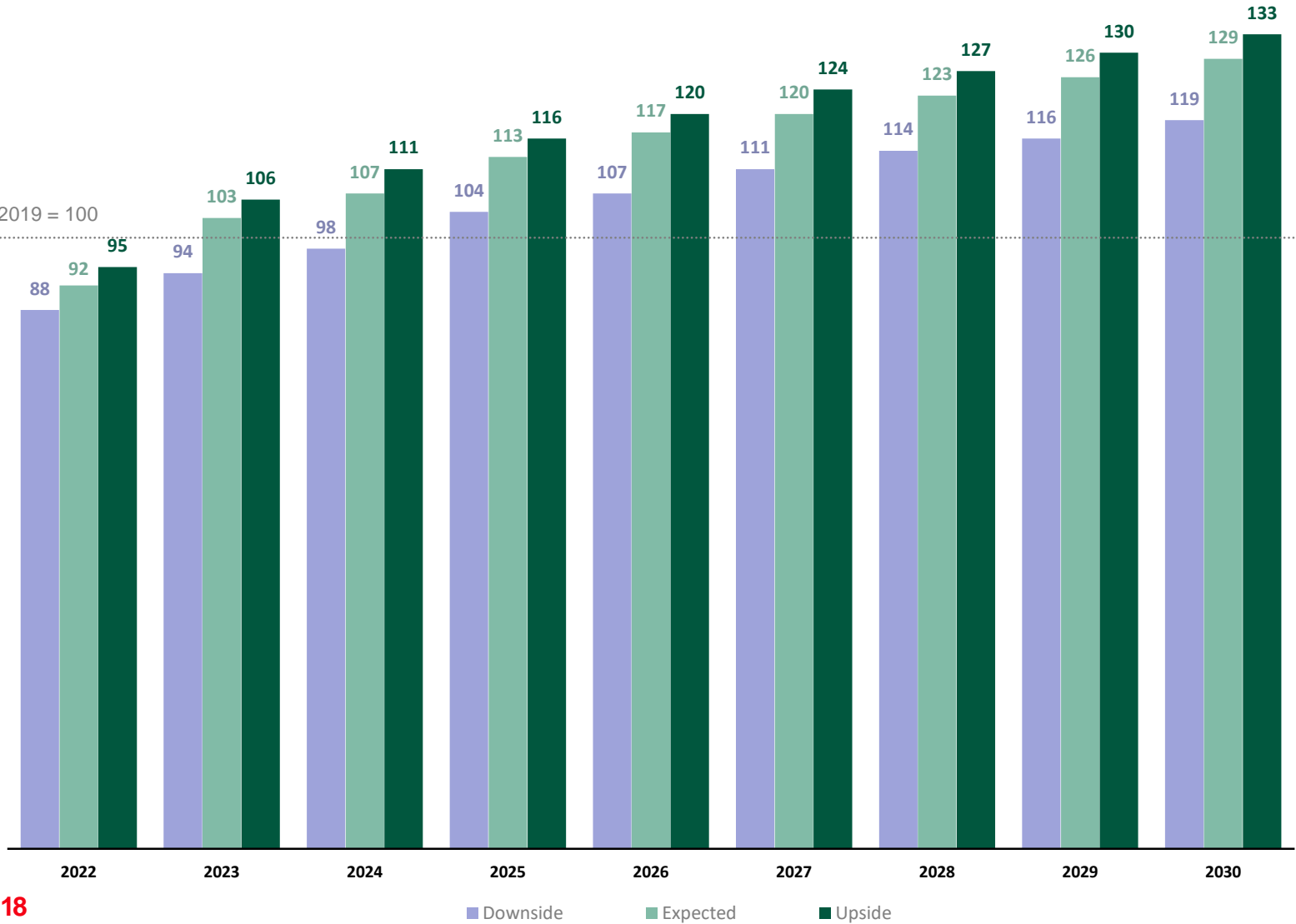
Key findings:

- In the downside scenario, international tourism spending reaches full recovery in 2025, a year later than in the expected and upside outlooks.
- In the longer term, international tourism spending reaches 152% of 2019 levels in 2030 in the expected scenario.
- While the upside scenario presents the possibilities of stronger performance (160% of 2019 spending in 2030), the downside scenario presents a larger gap from the expected scenario (134% of 2019 spending in 2030).

Forecast scenarios summary - Domestic



Total domestic tourism spending in Canada, percent relative to 2019



Key findings:

- In both the expected and upside scenario, recovery occurs in 2023. But the upside shows greater spending in 2022 and a more powerful recovery the following year.
- In the downside scenario, domestic spending almost recovers in 2024, but a full recovery is delayed until 2025.
- The upside scenario presents the possibility of stronger performance in the long term (133% of 2019 spending in 2030). However, the downside scenario presents a larger gap from the expected scenario (119% of 2019 spending in 2030 compared to 129% of 2019 spending in the expected scenario).

Market conditions *(summary)*



Canada

Canadians continue to prioritize domestic travel. Domestic travel has been resilient. It will fully recover in 2023 and continue to expand despite a mild to moderate recession in early 2023.



US

The US economy is anticipated to enter a short and mild recession in early-2023. Nevertheless, higher income households are anticipated to continue to resume travel activities, particularly international travel.



Mexico

Mexico's economy is expected to stall over the next 12 months, almost tipping into recession as ripple effects from the looming US recession will slow growth. Proximity will drive a continued increase in visitation.



Europe

The energy crisis has worsened, and economic conditions and confidence in the Eurozone appear to be deteriorating rapidly. Eurozone inflation hit 10% in September, putting further pressure on central bankers to continue raising interest rates. Country-level recessions are anticipated, but are expected to be short and mild to moderate, with growth resuming in 2024. Such conditions will weigh on households, weakening spending power and sentiment, and are anticipated to slow the recovery of international long-haul travel.



Australia

Prospects in Australia are favorable, supported by a tight labor market. Australian's have pivoted their consumption from goods to services, which has especially benefited the travel and hospitality sector.



Asia-Pacific







China's economic recovery is anticipated to fall short of previous recovery cycles, with the government's zero-Covid policy, persistent troubles in the real estate sector, and worsening external outlook continuing to weigh on private sector growth. The anticipated growth of the potential market in China supports strong long-term growth prospects.

While Japan may avoid near-term recession, the yen has depreciated notably, raising the cost of travel to Canada and the medium-term consumer outlook remains subdued at best.

Forecast scenarios | 2023 summary



Total tourism spending to Canada from domestic and international sources

Scenario	Economic headwinds	Geopolitical headwinds	Revenue in 2023 (\$B)	Loss in 2023 vs 2019(\$B)	Percent below 2019 Level in 2023
Upside			\$105.1	-	-
Expected			\$101.3	-\$3.8	3.6%
Downside			\$92.9	-\$12.2	11.6%

Tourism spending fully recovers next year in upside scenario


Tourism spending remains 11.6% below 2019 in downside scenario



BUSINESS TRAVEL



CANADA*

 Fairmont Banff Springs
Alberta

Consistent with Spring 2022 forecast, the **Business Events** travel segment is expected to fully recover over the next 5 to 6 years.

Other business travel segments

(includes sales calls, training, customer supports, etc.) are likely to return to a lower level of activities, although US business travel are showing encouraging signs of recovery with some surveys indicating that domestic US could reach 95% of 2019 levels in 2023.

The removal of travel restrictions to Canada should contribute to the rebound of business travel to Canada. Inflationary pressures will contribute to an earlier return to 2019 levels.

Factors causing structural changes in the business travel model include the following:

- ease and efficiency of virtual software;
- cost savings; and
- carbon emission targets.

Business Travel Segment:

Business Events (*Convention, congress, trade shows and incentive trips*):

- The recovery path is largely modelled on the basis of Destination Canada’s **National Business Events Pace** report, which looks at the pace of events bookings in the future. In the upside scenario, the tourism revenue share of Business Events presently stands at 50% below pre-pandemic share of revenue. The share is expected to fully recover by 2026 amid uncertainties. In the downside scenario it recovers by 2027.

Other business travel (*sales calls, training, customer support, etc.*):

- The tourism revenue share of other business reasons fully recovers by 2025 in the upside scenario, and 2026 under the expected recovery track. On the downside, it recovers by 2029.
- Recovery to the 2019 baseline is dependent on economic activities expanding over the next years which will motivate additional business travel.

Share of tourism revenues by trip purpose and market, 2019

	Overseas (Non-US)	US Air	US Land	Total International	Domestic	Total
Tourism Spending in Canada in 2019	100%	100%	100%	100%	100%	100%
Other Business (sales calls, internal meetings)	10%	39%	4%	17%	9%	11%
Business Events (Conference, convention/tradeshow)	3%	13%	1%	5%	6%	6%
Non-business (Pleasure, VFR, other reasons)	87%	48%	95%	78%	85%	83%

Signs that US business travel is rebounding



US companies are indicating strong intention to resume traveling

While business travel will be slower to recover from the US market than leisure travel, forward indicators on overall US corporate business travel are encouraging.

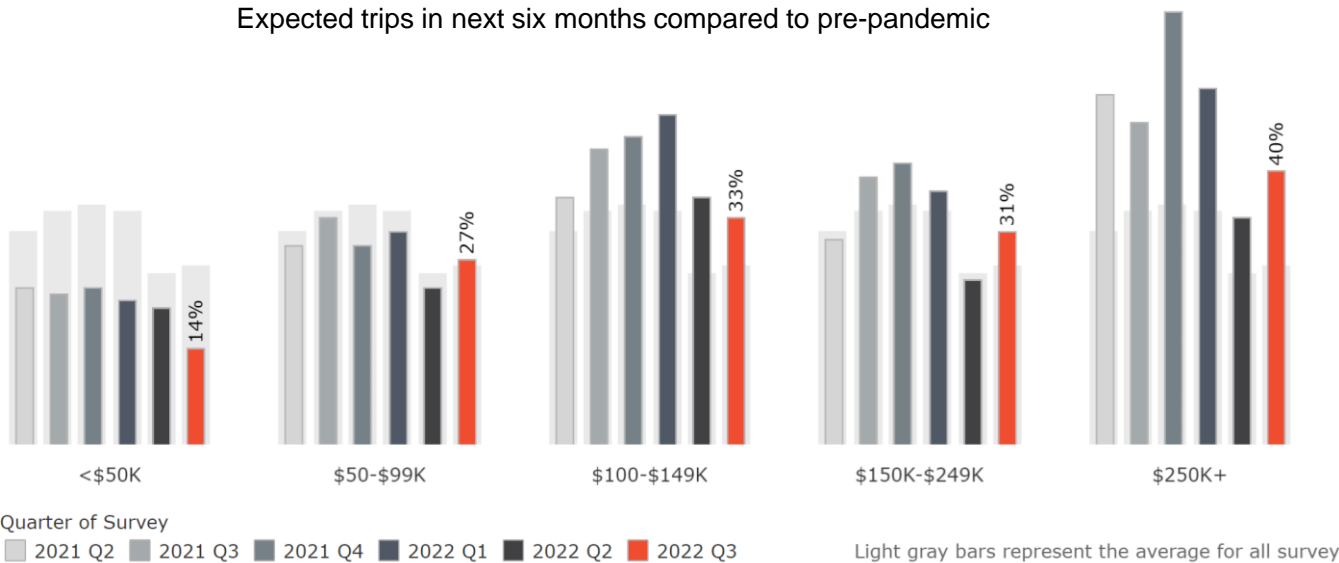
In the latest survey by J.D. Power, US business travellers indicated that the number of trips expected in the next six months would reach 95% of 2019 levels.

A recent MMGY survey also saw recent upticks in business travel intentions with the notable exception of consumers making less than \$50,000/year.

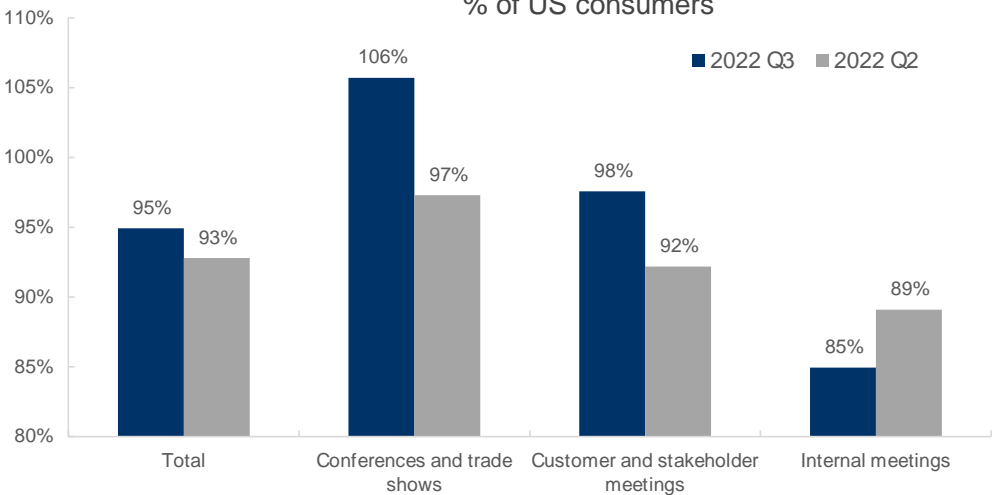
This is corroborated by recent hotel data from STR showing group room demand averaging 93% of 2019 levels over the past four months.

While business travel to Canada will recover more slowly than domestic US business travel, the removal of travel restrictions should accelerate the rebound.

US business traveller intentions
Expected trips in next six months compared to pre-pandemic



Percent of US consumers planning business travel
% of US consumers



[q1&q2] How many times do you travel on average for business purposes?

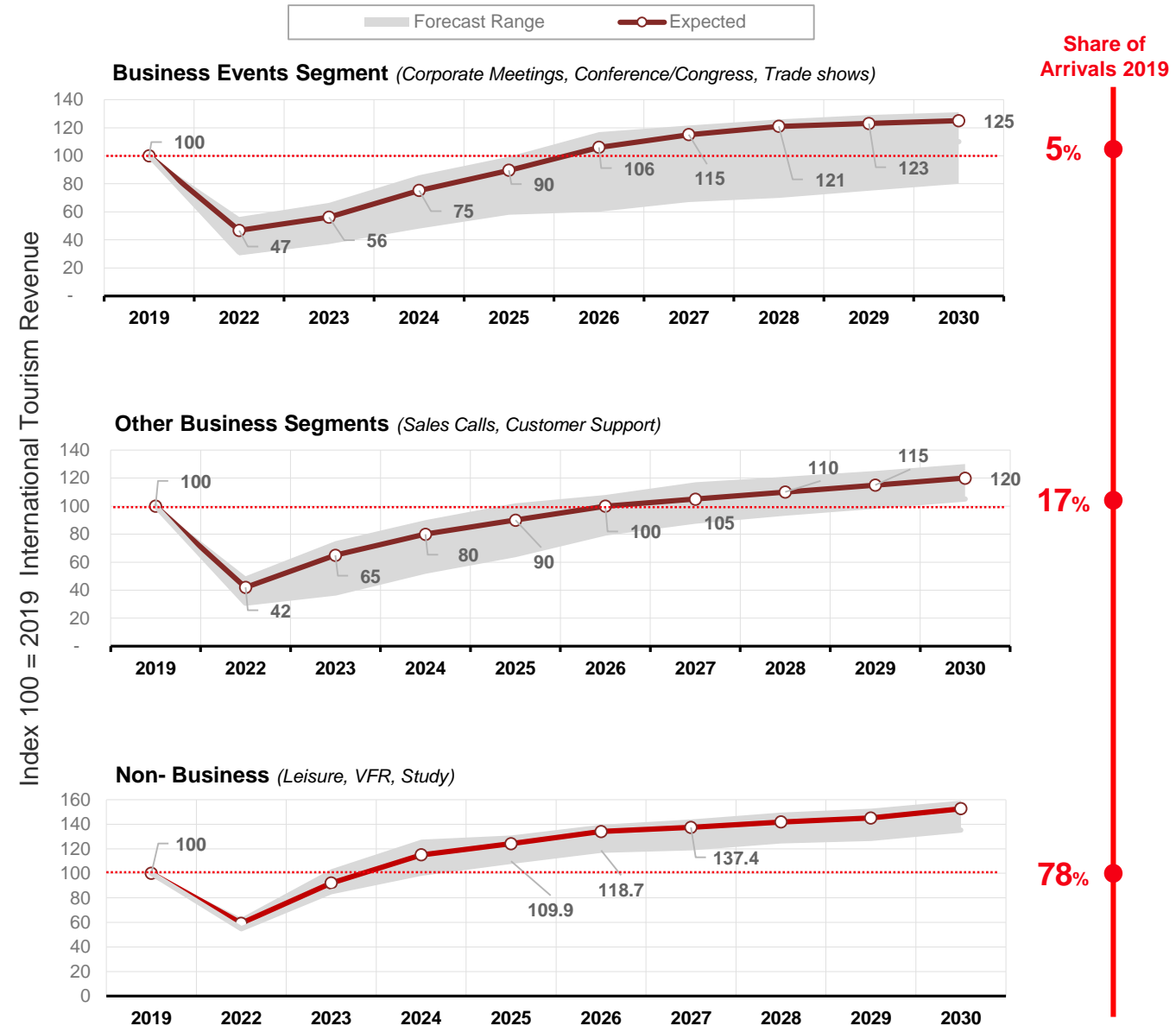
Business Travelers Survey BASE: Q3 N = 1641; Q2 N = 2545

International leisure travel to fully recover first, followed by Business Events

With the removal of COVID-19 restrictions, international revenues from the non-business, pleasure visitor segments (leisure, visiting friends and relatives [VFR] and study) are expected to fully recover as early as 2024, while revenues from the **Business Events** segment should return to their pre-pandemic levels by 2025 or 2026:

- **Optimism amid pent-up demand:** The optimism indicated by the expected recovery path from 2025 onward relative to the forecast range is grounded in an emerging trend toward pent-up demand for business events booked over a shorter booking window than the typical business events booking cycle.
- **Widening forecast range:** The National Pace and in-market stakeholders are signaling latency and uncertainties in booking events in later years, particularly starting in 2025.

Revenues from **other business** travel segments are not expected to return to their pre-pandemic level until 2025 under the best-case scenario. A return of other business travels to pre-pandemic levels will be contingent on overall economic activities increasing beyond pre-pandemic levels.



THANK YOU!
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