

TOURISM OUTLOOK

SPRING 2022

CANADA 

Canada

Tombstone Territorial Park

Yukon



DESTINATION
CANADA

Foreword

Given the rapidly changing situation in managing COVID-19 and geo-political events unfolding in Europe and their impacts on the world economy and tourism in particular, Destination Canada engaged Tourism Economics to aid in the development of our Tourism Outlook.

The Spring 2022 Tourism Outlook was conducted between late March and May and the assumptions reflect the operating context of that time.

The Tourism Outlook focuses on forecasting tourism expenditures in Canada driven by domestic overnight trips, international visitors from the United States (land and air), Destination Canada's overseas markets and the rest of the world.

Several scenarios were developed to support the forecast:

- **Upside scenario:** This scenario provides a more optimistic outlook accounting for socio-economic and marketing considerations between selected international markets and Canada.
- **Expected scenario:** This scenario reflects current pandemic, geo-political and economic trends.
- **Downside scenario:** This scenario accounts for protracted impacts from the geopolitical events.
- **Severe 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.



Toronto

Ontario

CANADA*

Content

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Jasper

Alberta

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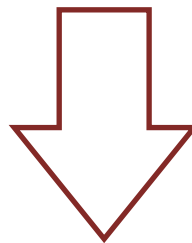
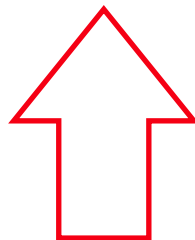
Momentum is positive for rebuilding tourism, but there are new uncertainties on the horizon

TAILWINDS

Reduced COVID-19 stringency

Consumer travel sentiment

Pent-up demand



HEADWINDS

Russia-Ukraine military offensive

Challenging economic environment

Surging inflationary pressure

Labour shortages

Macro shifts are shaping our outlook

Winter 2021

Spring 2022



Pandemic Outlook

Proof of a COVID-19 molecular test result (e.g., PCR test) taken within 72 hours prior to arrival into Canada.



The most **stringent public health restrictions are lifting around the world**, including Canada, as pre-arrival COVID-19 testing was lifted on April 1st.



Geopolitical

On-going China-US trade tensions to remain a downside risk, but with little consequence on tourism.



Russia invades Ukraine on February 24, 2022. The West isolates Russia through a series of escalating economic sanctions.



Economic

Supply chain disruptions and consumer spending on goods is creating inflationary pressures expected to ease in the second half of 2022.



The Russia-Ukraine conflict is generating **adverse economic conditions** including surging oil prices and prolonged inflationary pressure.



Industry Dynamics

Supply chain disruptions and chronic labour shortages to constrain tourism service delivery into 2024, leading to higher cost and acting as a drag on the recovery.



Global aviation disruptions from detours in long-haul flights and potential route substitutions.

Unfilled jobs in tourism is emerging as a chronic issue amid a tight labour market and an expanding work force in the Canadian economy.



Consumer & Travel

Accumulated household savings and a strong economic recovery will boost consumer confidence and support higher travel expenditures in 2022.



Pent-up demand remains strong despite facing new uncertainties. However, risk-averse markets may shift or substitute their travel to destinations perceived to be safer or closer to home.

Reduced business travel in the medium term will prolong the recovery from international markets and put upward pressure on flight costs.

Business travel continues its slow upward trajectory with a growing and careful optimism to plan and book in-person business events.

FORECAST SCENARIOS



Middle Cove Beach

Newfoundland and Labrador

CANADA*

Summary of the forecast modeling framework



Four scenarios for the Canadian Tourism Outlook

- **Upside:** Based on the Baseline scenario, higher travel sentiment considerations are added to account for Destination Canada's marketing activities in selected markets, and socio-economic affinity between these markets and Canada.
- **Expected:** Conflict remains confined to Ukraine with resolution by early 2023. Solid global economic growth. Oil price stabilizes by 2023.
- **Downside:** Conflict lasts longer than a year. Tepid global expansion this year. Oil price volatility further exacerbates inflation.
- **Severe:** Conflict escalates without a resolution before 2024. Global expansion falters this year, Europe goes into a recession in 2023. Volatility in energy and food prices keep inflation elevated.



An extended or expanded conflict in Europe represents a notable risk to Canadian tourism

In both the downside and severe scenarios, Canadian inbound travel losses would be experienced as a result of several factors:

- **Traveler sentiment** falls as a result of the war, especially in European travel markets.
- **Economic growth falters** globally, with a significant recession in Europe.
- **Commodity prices remain elevated** and possibly spike, affecting purchasing power and travel costs.



However, these negative impacts will be partially offset by two dynamics

- **Destination substitution:** Global travel markets will avoid European destinations, creating opportunity for Canada.
- **Outbound substitution:** Canadian domestic travel will increase as outbound travel is limited by risk aversion, higher travel prices, and slower GDP growth.

Key takeaways



- Full recovery of international travel to Canada is expected **in 2025 in the expected and downside scenarios**, and in 2026 in the severe downside scenario.
- Under the **upside scenario**, the conflict is resolved in 2022 and higher travel sentiment toward Canada combined with pent-up demand **accelerate recovery of Canadian tourism in 2024**.
- In the **downside scenario**, negative impacts are the result of the protracted conflict, economic turbulence, global aviation disruptions, and COVID-related behaviors and restrictions. As the conflict is resolved, public health and global economic conditions improve, **recovery of Canadian tourism returns to the baseline in 2025**.
- In the **severe scenario**, the conflict escalates beyond Ukrainian borders and continues through 2023. A new COVID variant emerges disrupting travel but with less restrictions compared to 2020. Global aviation disruptions include additional air space closures and capacity reductions. With higher travel costs, tighter budgets, and security concerns, **travel recovery is delayed and return to the baseline in 2026**.
- In **absolute terms**, the United States represents the most significant spending loss in each scenario relative to the baseline.
- In **relative terms**, the European source markets are expected to sustain the most severe percentage drop due to conflict-related economic weakness.

Overall Outlook:

The Canadian tourism sector is experiencing **a strong recovery**, following the sharp declines experienced during the COVID-19 pandemic. The Downside and Severe scenarios **delay, but do not fully disrupt this recovery**.

Forecast scenarios | Summary of assumptions

Scenario	Geopolitical	Pandemic Outlook	Economic	Industry Dynamics	Travel Sentiment
Upside	Conflict contained within Ukraine, lasting less than a year	COVID-19 transitions to an endemic disease	Solid global economic performance with world GDP growth of 3.4% this year. Short term inflationary pressures are offset by accumulated household savings and by strong pent-up travel demand	Current global connectivity air disruptions including closures of Ukrainian and Russian air space results in a greater number of visitors substituting European or Asian destinations for North American ones	Strong travel sentiment further enhanced by socio-economic connection with Canada and post-pandemic pent-up demand hold through the end of the year. A higher share of Canadian's travel budget is allocated toward domestic travels
Expected	Conflict contained within Ukraine, lasting less than a year	COVID-19 transitions to an endemic disease	Solid global economic performance with world GDP growth of 3.4% this year. Inflationary pressure stretches into 2023, weighing on travel budgets	Current global connectivity air disruptions including closures of Ukrainian and Russian air space have minor implications for Canadian tourism	Strong travel sentiment and post-pandemic pent-up demand hold through the end of the year
Downside	A protracted conflict with a resolution expected by Q2 2023	COVID-19 flare-ups in Q4 2022 cause temporary disruptions	A slower global expansion at 2.8% is expected this year. European economies bear the brunt of conflict spillovers. Inflationary pressure stretches into 2023, weighing on travel budgets	Jet fuel prices are affected by persistently high oil prices weakening travel demand and causing capacity constrains for flights experiencing extended travel times	Travel sentiment about long-haul travel begins to slip later this year due to deteriorating economic conditions
Severe	Conflict escalates beyond Ukrainian borders, lasting through 2023	A new variant emerges in late 2022 prompting self-isolation and voluntary restrictions	World GDP growth slows to 1.8% in 2022 with a recession in Europe. Inflationary pressure stretches into 2023, weighing on travel budgets	Further air space closures, jet fuel price volatility, and supply constraints suppress international travel recovery	Higher travel costs, tighter budgets, and security concerns further deteriorate travel sentiment well into 2023

Forecast scenarios | Overall

Total tourism spending to Canada from domestic and international sources

Scenario & Comparison



Scenario	Pandemic Outlook	European Conflict	Rev. in 2022 (\$B)	Loss in 2022 vs 2019(\$B)	Return to 2019 Level
Upside			\$86.8	-\$17.8	2024
Expected			\$79.9	-\$24.7	2025
Downside			\$80.6	-\$23.9	2025
Severe			\$81.0	-\$23.6	2026

Current recovery scenario is projecting a return to 2019 by 2025, with an upside to 2024

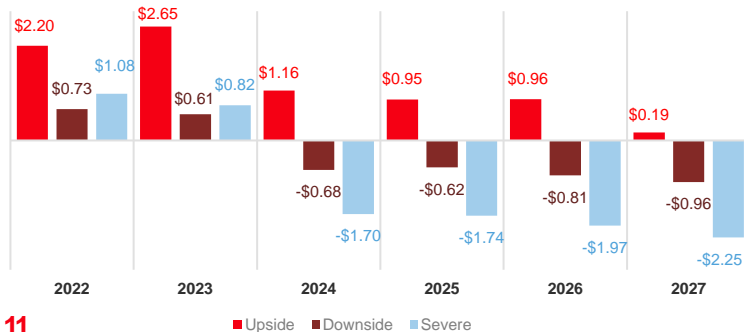
Overall - total tourism spending to Canada from domestic and international sources

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

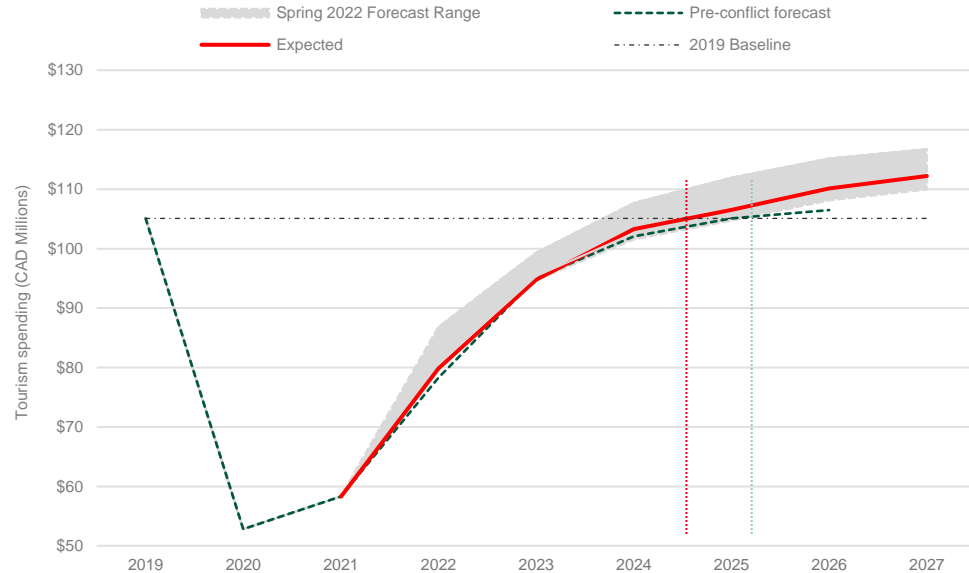
The upside scenario assumes:

- Lower impact of conflict on the global economy
- France and UK affinity to Canada
- Early easing of COVID-19 measures in the US and China

Tourism Revenue Contraction from Expected (\$Billion)



Total Tourism Spending in Canada
from Domestic and International Sources
\$Million (constant 2019 dollars)



Forecast Scenario Breakdown



Domestic



International



>> US & Mexico Domestic



>> Overseas International



>>> Europe



>>> Asia-Pacific

Forecast scenarios | Domestic

Total tourism spending to Canada from domestic sources



Scenario	Rev. in 2022 (\$B)	Loss in 2022 vs 2019 (\$B)	Return to 2019 Level
Upside	\$75.3	-\$6.7	2023
Expected	\$69.3	-\$12.7	2024
Downside	\$70.6	-\$11.3	2024
Severe	\$71.7	-\$10.3	2023

Domestic tourism will continue to drive sector recovery returning to 2019 levels by 2024

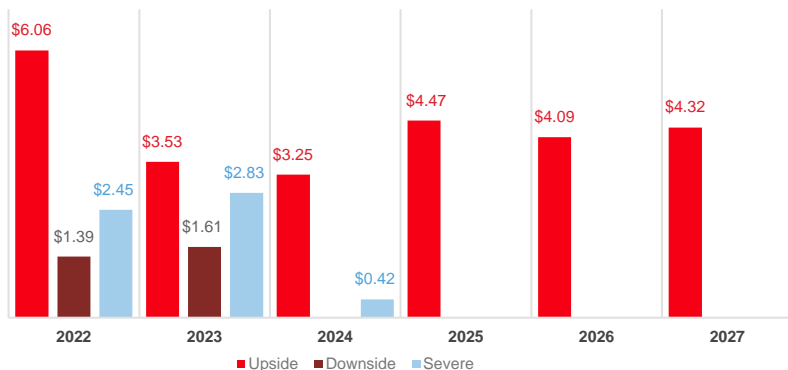


Total tourism spending to Canada from domestic sources

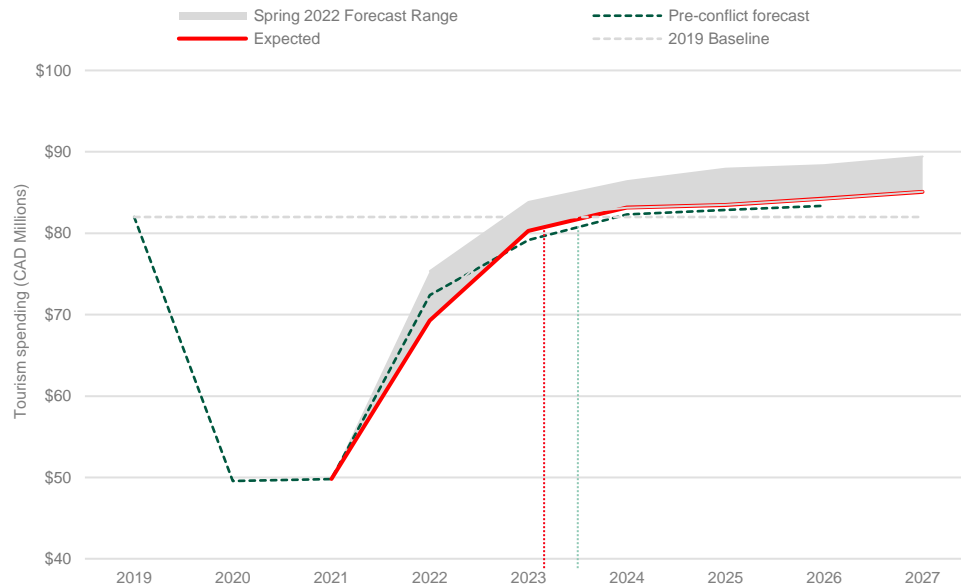
Under the downside and severe scenarios, uncertainties surrounding security concerns, geopolitical risks and inflationary pressures would entice travellers to exhibit preference for domestic destinations, continuing the substitution of outbound-to-domestic trend observed amid the pandemic.

The upside scenario assumes a persistent substitution effect.

Revenues from Import Substitutions Relative to Expected (\$Billion)



Domestic Tourism Spending in Canada From Domestic and Domestic Fare Toward Outbound Sources \$Million (constant 2019 dollars)



Forecast scenarios | International

Tourism spending to Canada from international markets (Tourism Exports)

Scenario	Rev. in 2022 (\$B)	Loss in 2022 vs 2019 (\$B)	Return to 2019 Level
Upside	\$11.4	-\$11.1	2025
Expected	\$10.6	-\$12.0	2025
Downside	\$10.0	-\$12.6	2025
Severe	\$9.2	-\$13.3	2026

North American and Asia-Pacific markets to minimize risk exposure from Europe

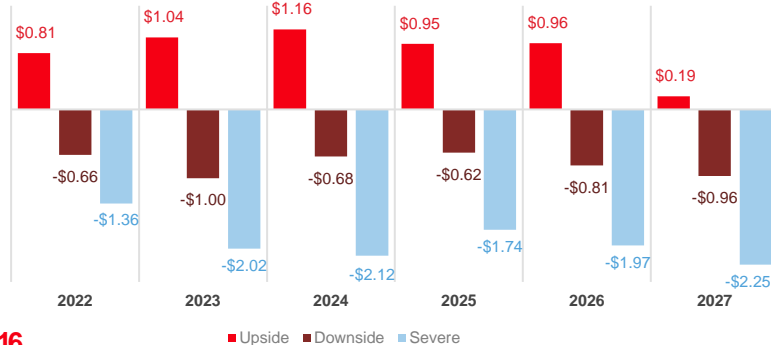
Tourism spending to Canada from international markets (Tourism Exports)

Full recovery of international travel to Canada is expected in 2025 in the baseline and downside scenarios, and in 2026 in the severe downside scenario.

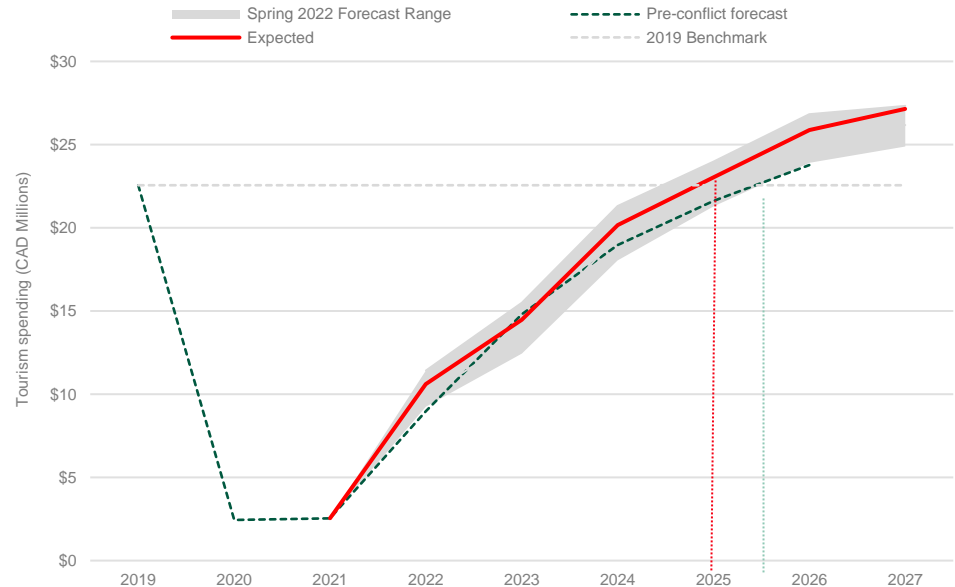
In absolute terms, the US represents the most significant spending loss in each scenario relative to the baseline.

Relative to the baseline, the most severe percentage impacts on spending are expected in European source markets due to conflict-related economic weakness.

**Scenario Revenues
Relative to Expected (\$Billion)**



Total Tourism Spending in Canada
From Overnight International Visitors
\$Million (constant 2019 dollars)



Forecast scenarios | United States and Mexico

Tourism spending to Canada from United States and Mexico

International >
US & Mexico



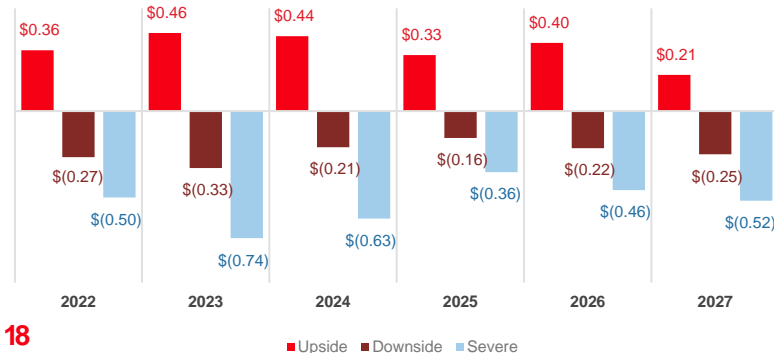
Scenario	Rev. in 2022 (\$B)	Loss in 2022 vs 2019 (\$B)	Return to 2019 Level
Upside	\$5.9	-\$6.0	2024-2025
Expected	\$5.6	-\$6.3	2025
Downside	\$5.2	-\$6.6	2025
Severe	\$5.0	-\$6.9	2026

Tourism spending from US and Mexico markets to accelerate over next two years

Tourism spending to Canada from United States and Mexico

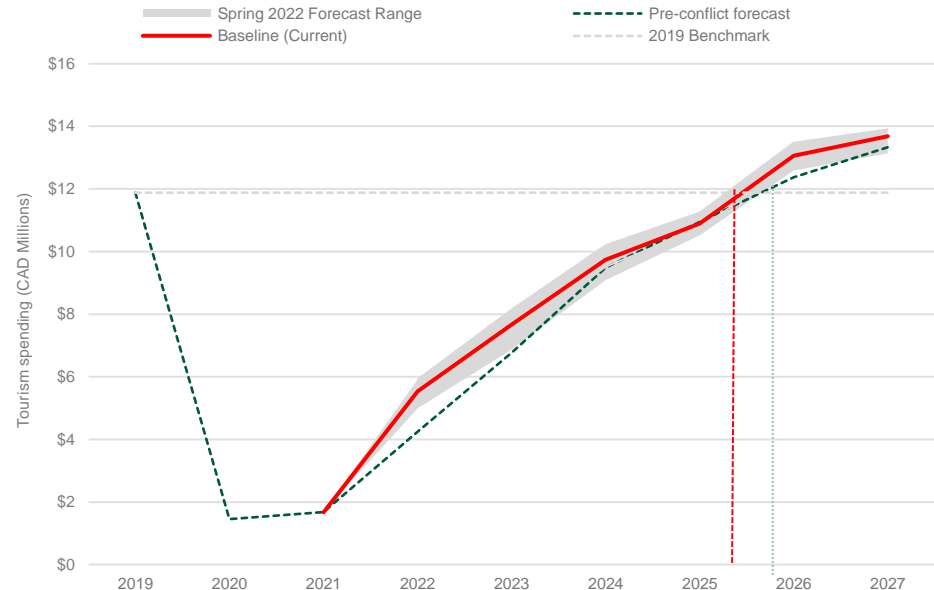
- Tourism spending in Canada from Mexico and the US is expected to accelerate in 2022 and fully recover to the 2019 benchmark by 2025.
- The Ukraine-Russian conflict may inflict a mild recovery slow down, primarily from inflationary pressure and global uncertainties.
- The removal of COVID-19 molecular test requirements by the US contributes to accelerating recovery by one year.

Change in Tourism Revenue Relative to Expected (\$Billion)



Tourism Spending in Canada

From Overnight Arrivals from the United States and Mexico
\$Million (constant 2019 dollars)



Tourism spending from US air and land

Tourism spending to Canada from United States and Mexico

International »
US & Mexico

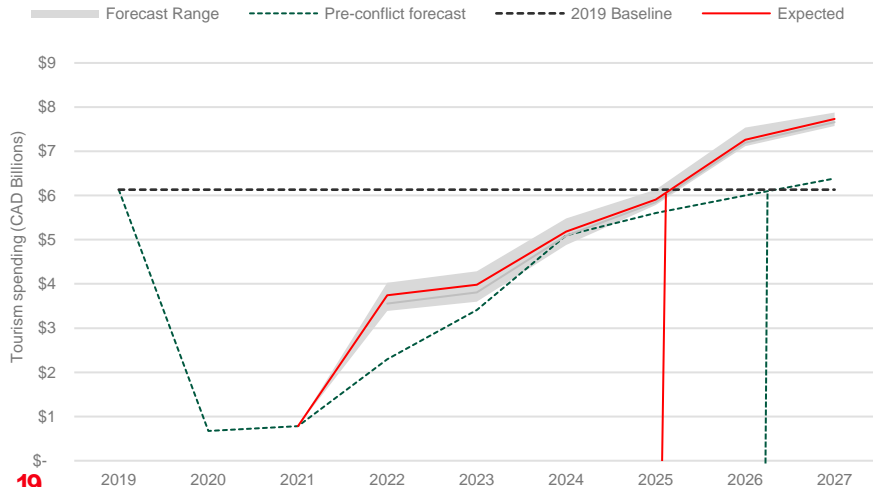


- Recent data indicates robust air travel recovery, which is expected to accelerate a return to 2019 levels by 2025.
- Record gasoline prices are expected to leave some mark on land travel, slowing the land segment recovery into 2026 or later.



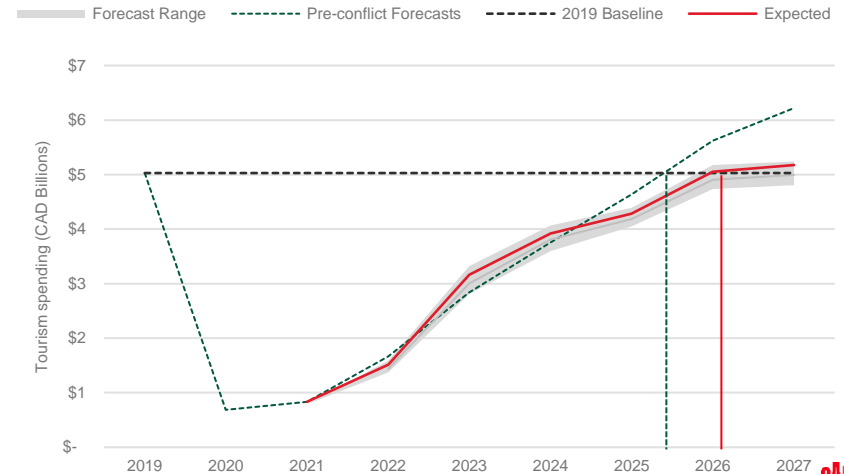
Tourism spending in Canada

From overnight arrivals by air from the United States
\$Million (constant 2019 dollars)



Tourism spending in Canada

From overnight arrivals by land from the United States
\$Million (constant 2019 dollars)



Forecast scenarios

Tourism spending to Canada from DC Overseas Markets

International >
US & Mexico



Scenario	Rev. in 2022 (\$B)	Loss in 2022 vs 2019 (\$B)	Return to 2019 Level
Upside	\$3.6	-\$2.9	2025
Expected	\$3.2	-\$3.2	2025
Downside	\$2.9	-\$3.5	2026
Severe	\$2.7	-\$3.8	2026

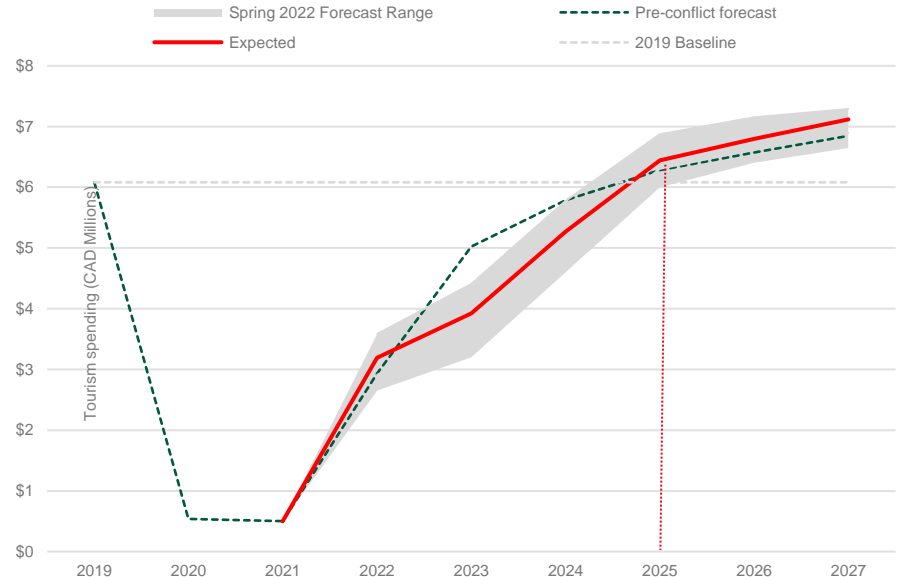
Tourism spending from DC overseas markets to slow over next two years



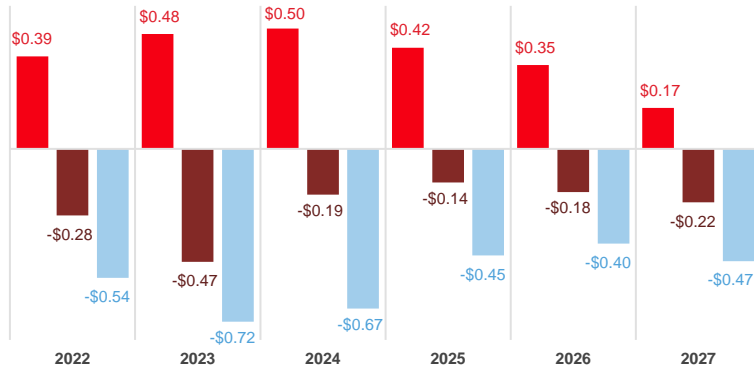
Tourism spending to Canada from DC Overseas Markets (Asia-Pacific and Europe)

- Spending from overnight visitors is expected to be moderate in 2023 and 2024 as a result of economic fallout from the Ukraine-Russia conflict.
- Under the baseline and downside scenarios, spending is expected to return to its long-term trend by 2025, surpassing the 2019 benchmark.

Tourism spending in Canada
From overnight arrivals from DC overseas markets
\$Million (constant 2019 dollars)



Tourism Revenue from DC Overseas relative to Expected (\$Billion)



■ Upside ■ Downside ■ Severe



Forecast scenarios

Tourism spending to Canada from DC Europe

International >
DC Overseas >
DC Europe



Scenario	Rev. in 2022 (\$B)	Loss in 2022 vs 2019 (\$B)	Return to 2019 Level
Upside	\$2.1	-\$0.9	2025
Expected	\$1.9	-\$1.1	2025
Downside	\$1.7	-\$1.3	2025
Severe	\$1.5	-\$1.5	2026

Tourism spending from DC Europe markets to be the most impacted by the conflict

DC Europe (United Kingdom, France and Germany)

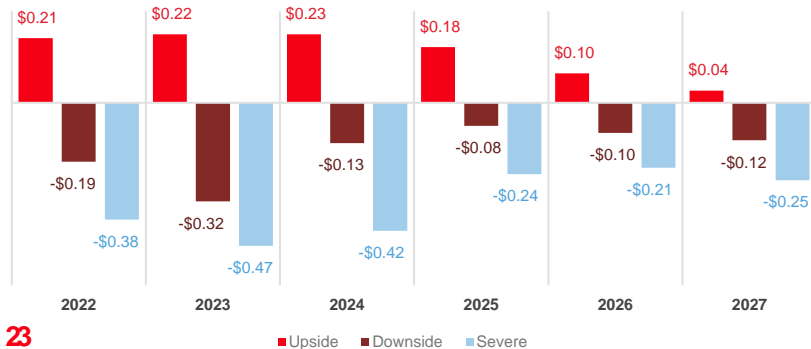
International >
DC Overseas >
DC Europe



Being the most impacted by the conflict, commodity cost increases, particularly oil and gas, are expected to be particularly acute in Europe, slowing economic growth, slowing arrivals into 2023 and delaying the recovery baseline by one year to 2025.

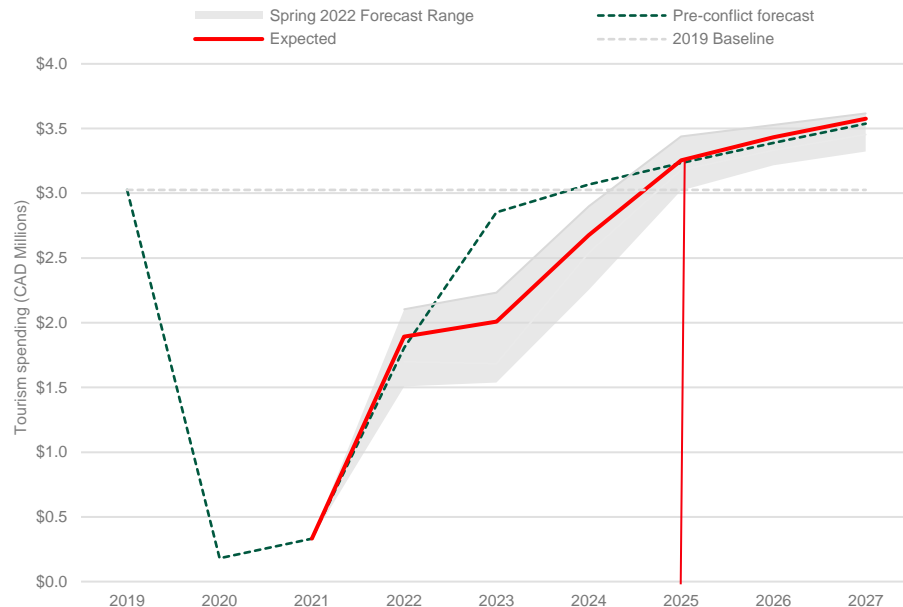
Close ties to Canada in the UK and France may temper this tendency.

Tourism Revenue from DC Europe relative to Expected (\$Billion)



Tourism Spending in Canada

From overnight arrivals from DC Europe markets
\$Million (constant 2019 dollars)



Forecast scenarios

Tourism spending to Canada from DC Asia-Pacific

International >
DC Overseas >
DC Asia-Pacific



Scenario	Rev. in 2022 (\$B)	Loss in 2022 vs 2019 (\$B)	Return to 2019 Level
Upside	\$1.5	-\$1.9	2025
Expected	\$1.3	-\$2.1	2027
Downside	\$1.2	-\$2.2	2027
Severe	\$1.1	-\$2.3	>=2028

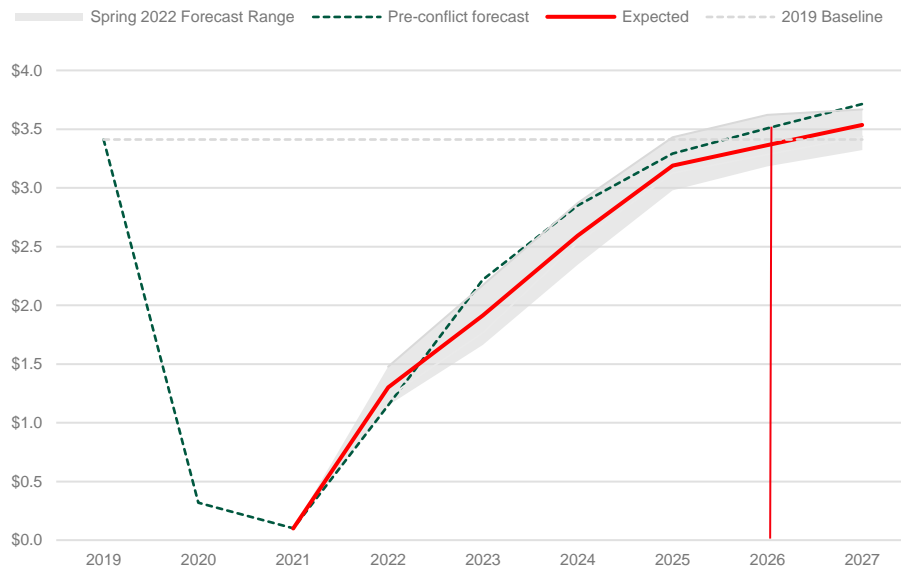
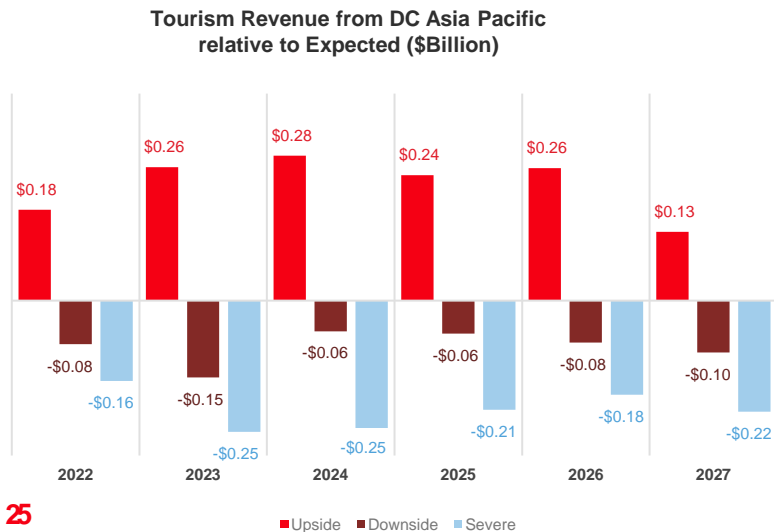
Tourism spending from DC Asia-Pacific markets to slow over next two years




DC Asia-Pacific (Australia, China, Japan, South Korea)


Source markets from Asia Pacific will be moderately impacted by the conflict. With a new variant, the zero-COVID policy in China may have an extended impact.


Tourism spending in Canada
From overnight arrivals from DC Asia-Pacific markets
\$Million (constant 2019 dollars)




Regional implications

 **Europe:** The conflict will have the most severe impacts on tourism prospects originating in Europe. Commodity cost increases, particularly oil and gas, are expected to be particularly acute in Europe, slowing economic growth.

 **Asia-Pacific:** Source markets from Asia-Pacific will be moderately impacted by the conflict. With a new variant, the zero-COVID policy in China may have an extended impact.

 **US:** Canadian travel originating in the US is more insulated from the Russia-Ukraine conflict and potential impacts of a new variant, but due to the importance of the market to Canada even moderate delays in the recovery results in significant spending losses relative to the baseline. Higher gas prices will slow the land segment recovery.

 **Mexico:** Similar to the US, Mexico will feel indirect impacts of the conflict as part of increased uncertainty, inflationary pressures, and the slowdown in global economic activity, resulting in minimal impacts to Canadian travel originating in Mexico.

Results summary

Change in spending between scenarios from 2022 to 2027 relative to baseline 2019 benchmark¹

Key observations

Amid a sustained recovery from COVID-19 between 2022 and 2027, the economic loss attributable to socio-economic headwinds triggered by the pandemic, together with the impact of the Ukraine-Russia conflict on the global economy and air connectivity is expected to result in a shortfall of 3.8% to 4.7% relative to the 2019 benchmark.

Overnight international spend in Canada, loss relative to 2019 baseline, \$million

Country	Based on 2019 Receipts	Amount	Expected	
			%	Return to 2019 Level
United States	\$67,349	-\$5,221	-7.8%	2025
United Kingdom	\$8,071	-\$414	-5.1%	2025
France	\$5,750	-\$556	-9.7%	2025
China	\$10,812	-\$3,573	-33.0%	2026+
Germany	\$4,432	-\$446	-10.0%	2025
Australia	\$4,647	-\$242	-5.2%	2025
Japan	\$2,855	-\$609	-21.3%	2026
Mexico	\$4,324	-\$667	-15.4%	2026
South Korea	\$2,276	-\$265	-11.6%	2026
Rest of world	\$25,639	-\$2,870	-11.2%	
Total international	\$136,155	-\$14,528	-10.8%	
Domestic	\$494,673	-\$9,139	-1.9%	2023
Net impact	\$630,828	-\$23,667	-3.8%	2025

BUSINESS AND NON-BUSINESS TRAVEL



Whistler Conference Centre

British Columbia

CANADA

International business recovery

Amid considerable medium-term uncertainties, the **Business Events** travel segment is expected to fully recover over the next 5 to 6 years.

However, **other business travel segments** (includes sales calls, training, customer supports, etc.) are likely to return to a lower level of activities.

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

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

The recovery of other business travel segments to the 2019 baseline will depend on expansion in international trade and economic activities over time.

US Air travel to Canada

- o With 52% of passengers traveling on business travel, US air arrivals stand to be the most impacted by the structural changes to face-to face business meetings.

Business Travel Segment Assumptions:

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

- o 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 is presently assumed to stand 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.*):

- o In the upside scenario, the tourism revenue share of other business reasons presently stands at 70% below pre-pandemic and it fully recovers by 2027 or 2028. In the downside it reaches 20% below pre-pandemic levels by 2028 and stays at that level thereafter.
- o 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

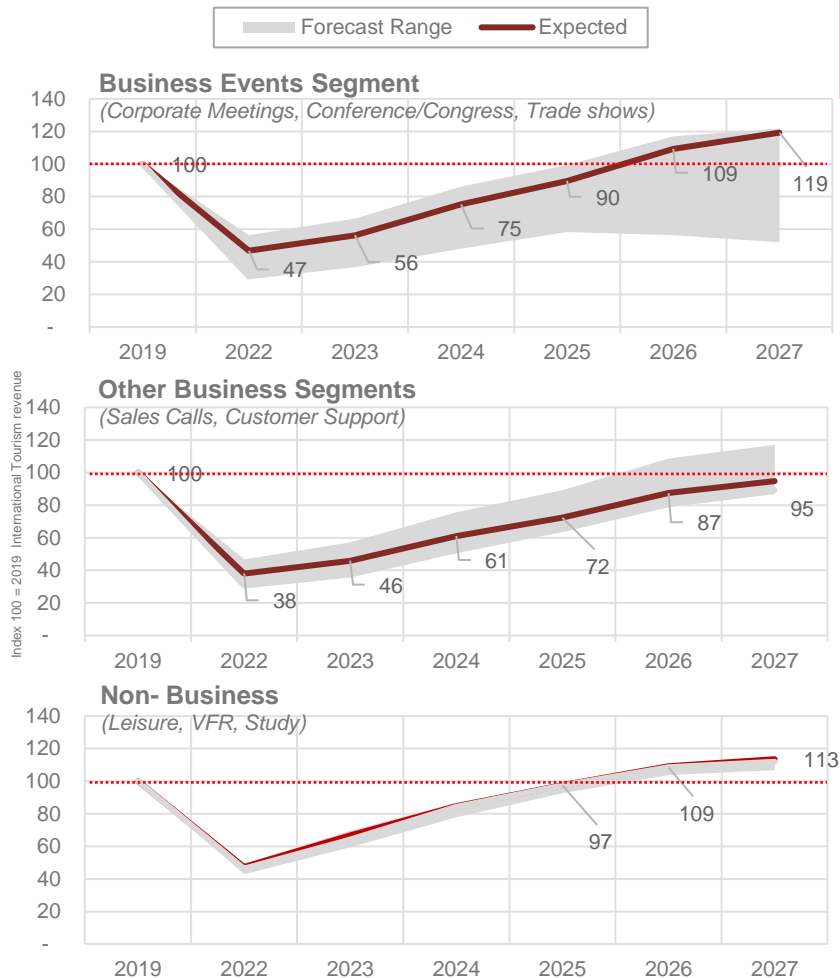
	Overseas (Non-US)	US Air	US Land	Total International	Domestic	Total
Tourism Spending in Canada in 2019 (\$ Billion)*	\$11.4 100%	\$6.1 100%	\$5.0 100%	\$22.6 100%	\$45.9 100%	\$68.4 100%
Other Business (<i>sales calls, internal meetings</i>)	10%	39%	4%	17%	9%	11%
Business Events (<i>Conference, convention/tradeshow</i>)	3%	13%	1%	5%	6%	6%
Non-business (<i>Pleasure, VFR, other reasons</i>)	87%	48%	95%	78%	85%	83%

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

While international revenues from pleasure visitor segments (**Non-Business** - leisure, visiting friends and relatives [VFR] and study) are expected to fully recover first by 2025, 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 emerging trend toward pent-up demand for business events booked over 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 2026 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.



Segment	Share of Arrivals 2019
Business Events Segment	5%
Other Business Segments	17%
Non-Business	78%

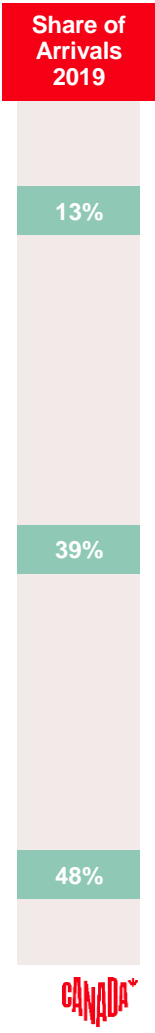
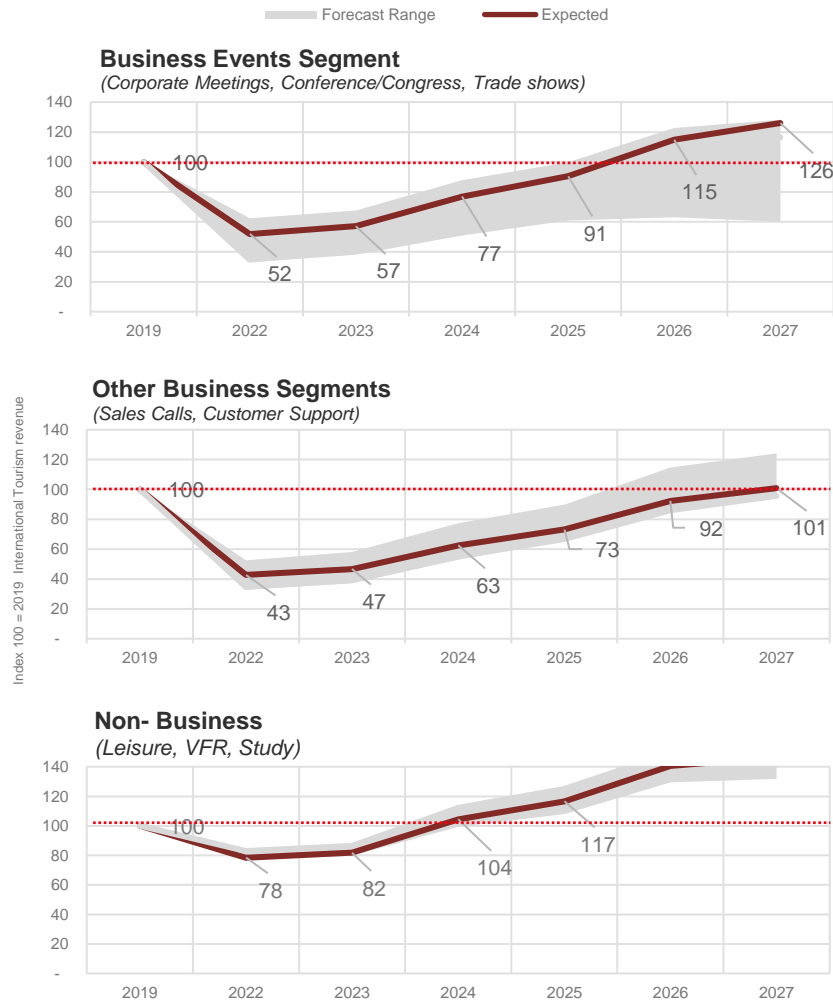


US business travel to recovery at a slower rate than non-business travel

Accounting for 39% of pre-pandemic revenues from US air travel to Canada, **US air travels for non-business travels to Canada is expected to recover to pre-pandemic levels by 2024.**

Travels for business events purposes, such as congress, convention, incentive trips and large corporate meetings are expected to recover by 2026 based on pent-up demand and shorter booking windows. As indicated by market signals and the widening forecast range, considerable uncertainties remain on the recovery path.

US travel by air to Canada for other business segments will recover at a slower pace by 2027, with the recovery largely tied to increased trade and economic activities generating more business travel opportunities.



KEY DRIVERS OF RECOVERY



Vancouver

British Columbia

CANADA*

Key Drivers of Recovery



Pandemic Outlook



Geopolitical



Economic



Industry Dynamics



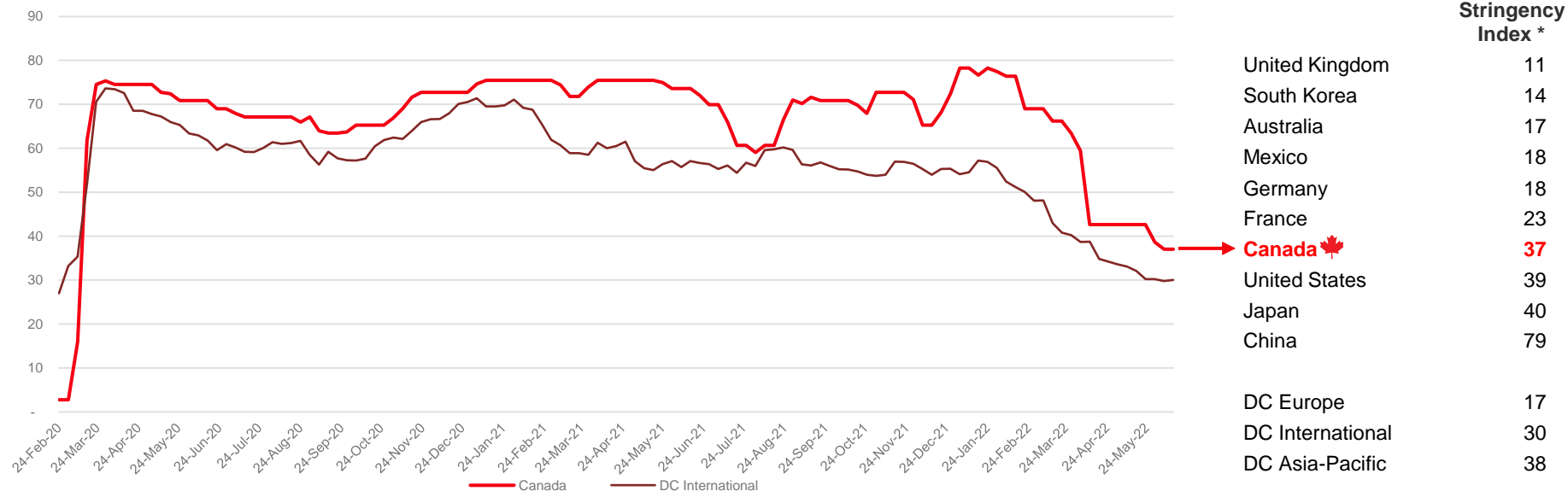
Consumer & Travel

Learning to live with COVID-19, the world is reopening

With the acute phase of the pandemic behind us, the social and economic lockdowns experienced in 2020 and 2021 are unlikely to be re-imposed.

Across the globe, most countries are **easing or removing COVID-19 related restrictions and public health mandates.**

Stringency Index of Border and Public Health Measures to Contain COVID-19



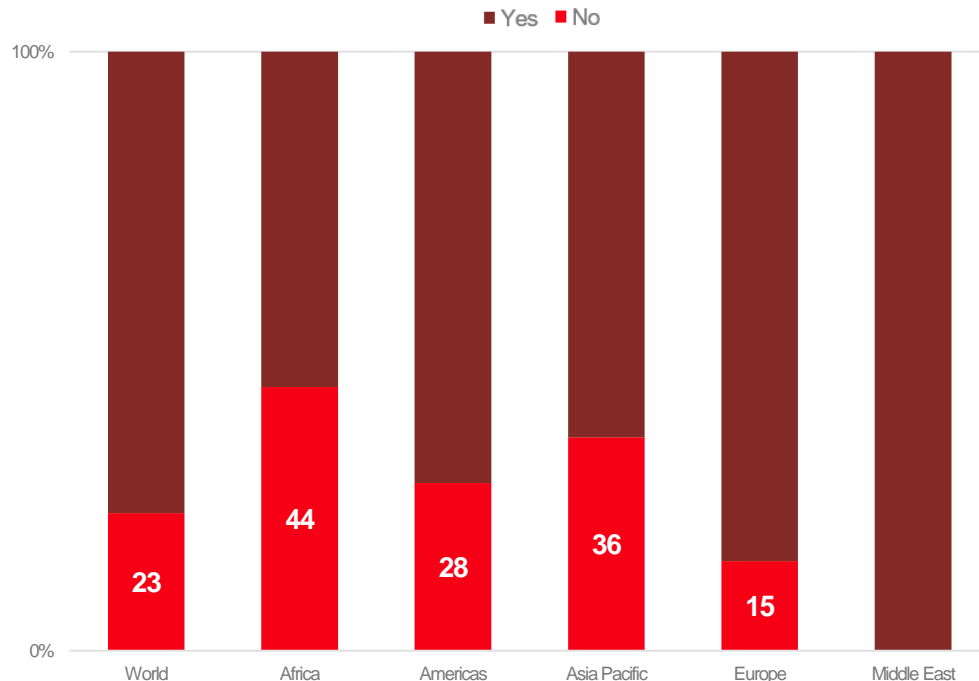
34 *The stringency index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest).

Russia-Ukraine conflict will weigh on the overall recovery of international tourism

As uncertainties moderate with respect to COVID-19, the invasion of Ukraine by Russia **imposed considerable disruptions on the global economy** with varying doses of uncertainties in outlook.

Although Ukraine and Russia represent less than 0.2% of international arrivals to Canada, the **indirect consequences of the war** on the global economy, air connectivity, inter-continental travel and travel sentiment have the potential to be **far reaching**.

Impact of the Russia-Ukraine Conflict on travel



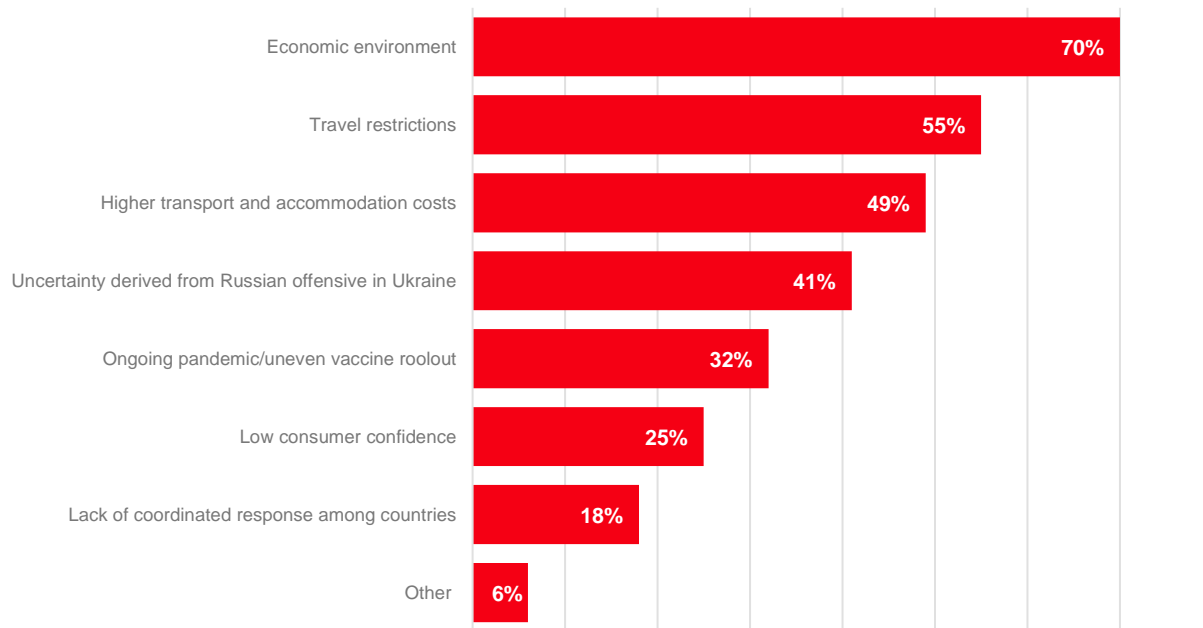
The economic environment is the main factor set to weigh on the recovery of international tourism

The economic environment trumps travel restrictions and uncertainties associated with the Russian invasion of Ukraine.

However, concerns over the economic environment and transport/accommodation costs have increased in the Americas and Europe as a result of ongoing travel restrictions in Asia-Pacific and the Russian invasion of Ukraine.

In spite of these concerns, consumer confidence remains relatively unaffected as the UNWTO Confidence Index showed a significant improvement, returning to its 2019 level for the first time, and reflecting a rising optimism among tourism experts worldwide.

What are the main factors weighing on the recovery on international tourism?



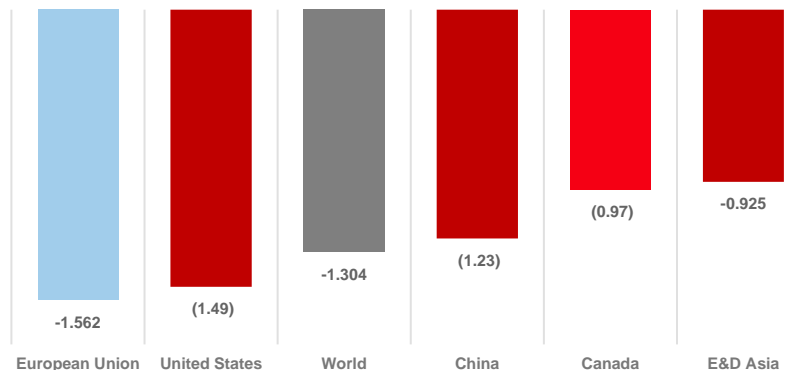
Global economic growth to moderate, with Europe to bear the brunt of challenging economic conditions

Global growth was downgraded by the International Monetary Fund by 1.6% for 2022 as a result of the Russia-Ukraine conflict, which is moderated from the economic rebound as the pandemic wanes.

The **Euro Area** is expected to be the most impacted by a slow down in activities associated with the conflict, which will trigger a sharp rise in inflation.

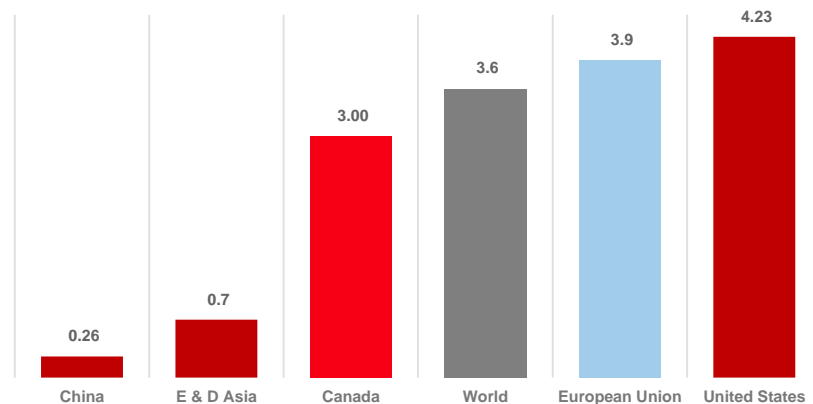
Change in the IMF GDP (Constant price) forecast for 2022

IMF World Economic Outlook,
Percentage-point difference between April 2022 vs October 2021



Change in the IMF inflation forecast for 2022

IMF World Economic Outlook,
Percentage-point difference between April 2022 vs October 2021



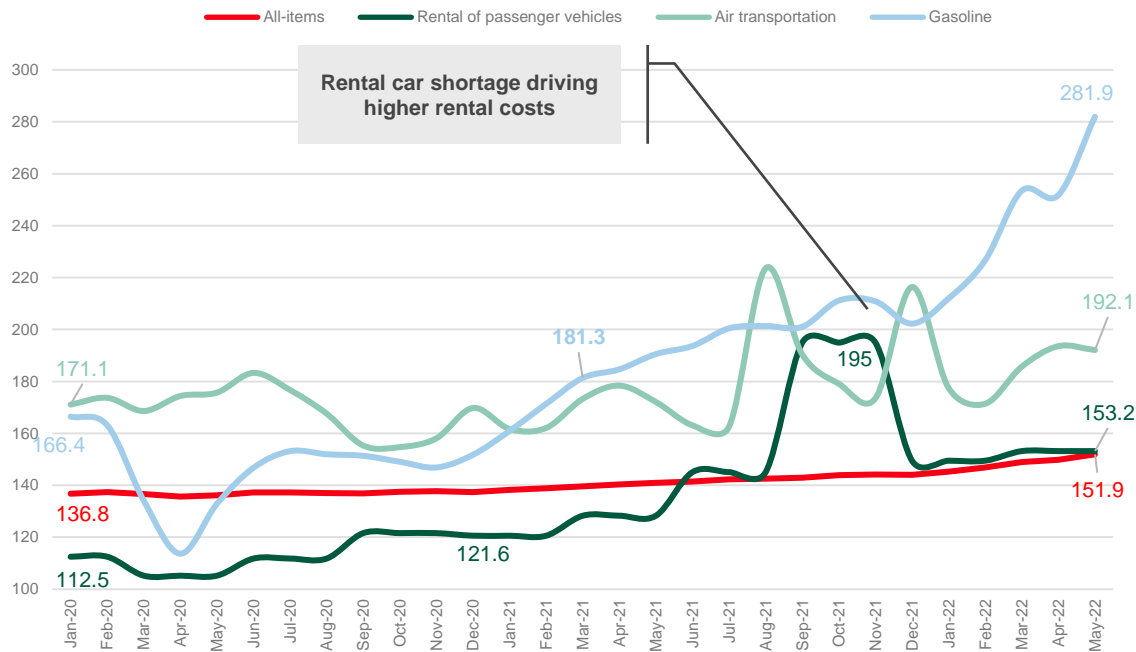
Inflationary pressures impacting travel costs

Inflation is a growing issue in Canada and around the world, prompting central banks to increase their lending rates.

Large increases in energy prices as well as supply constraints amid high demand for goods and, increasingly services, are important contributors to inflationary pressures.

Despite expecting higher interest rates, consumers continue to anticipate strong spending growth on a broad range of goods and services¹. While higher inflation may prompt some travellers to modify travel plans based on tighter budgets, steadfast pent-up demand is expected to win over higher prices².

Consumer Price Index
Canada, not seasonally adjusted



¹ Bank of Canada, Canadian Survey of Consumer Expectations, First Quarter of 2022

² Skift, Pent-up demand meets inflation (2022/04/25)

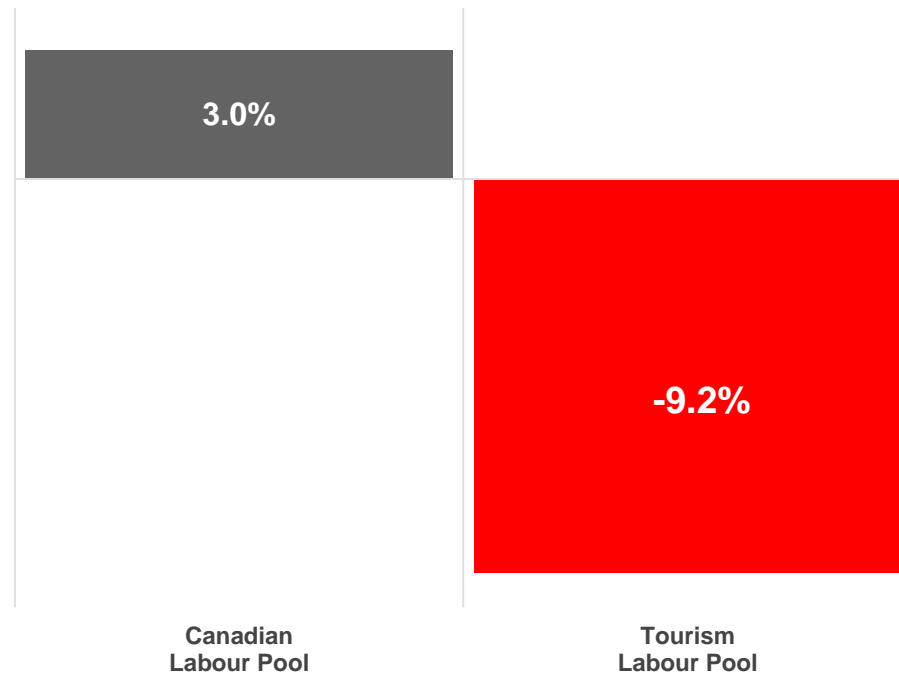
Source: Statistics Canada, Consumer price index, monthly, not seasonally adjusted, Table 18-100004-01

Persisting labour shortage impeding tourism recovery

While employment in tourism industries has regained over 80% of the employment it lost at the peak of the pandemic, tourism is still facing persistent labour shortages. While the labour in the Canadian economy expanded by 3 percent in May 2022, relative to the same period in 2019, the tourism labour force still lags 9.2 percent below its 2019 level.

This shortage represents 203,000 fewer people employed or seeking employment in the tourism sector, leaving unfilled tourism jobs and representing a significant drag on the recovery of the tourism sector.

Change in the Labour Pool
between May 2019 and May 2022



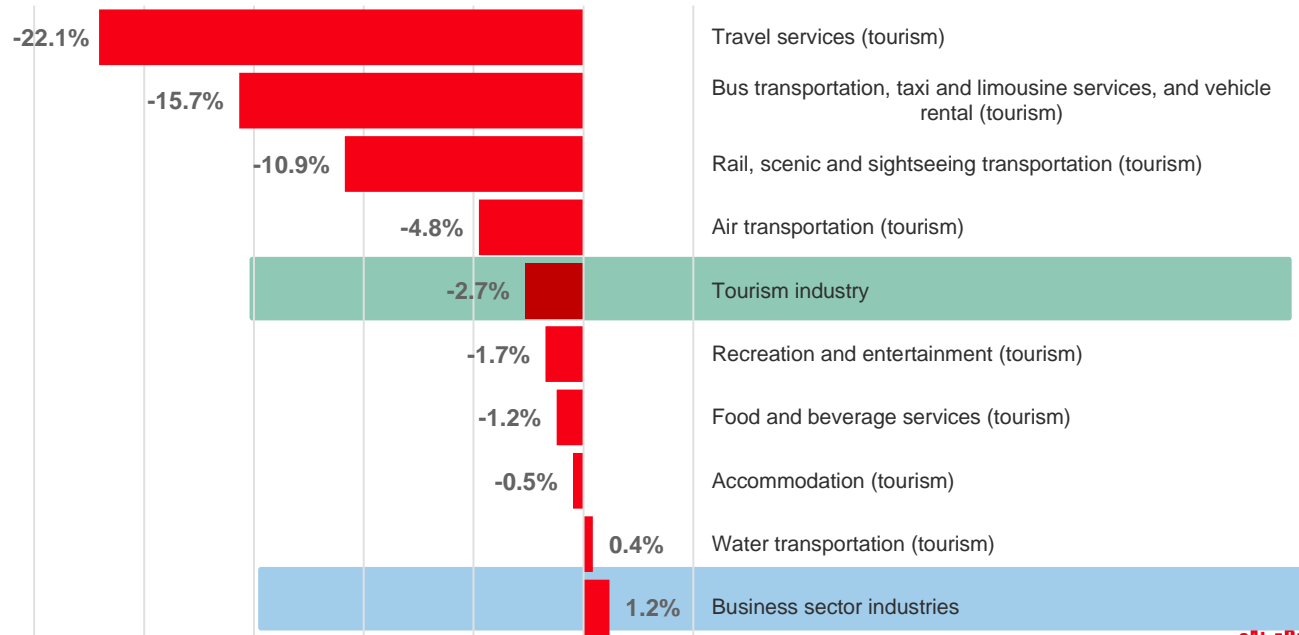
Pandemic has had the greatest impact on tourism businesses with many tourism industries still lagging in recovery

As of March 2022, the number of businesses active in tourism stood 2.7% below its pre-pandemic level.

Meanwhile, the total number of active businesses in the Canadian economy has recovered to 1.2% above its pre-pandemic levels.

Active Businesses: Tourism Industries

2022-Mar / 2020-Jan

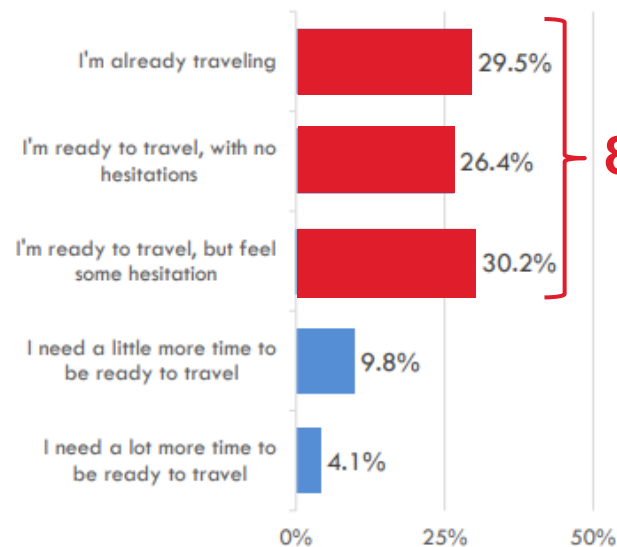


Level of welcome toward domestic and international travellers is at an all-time high



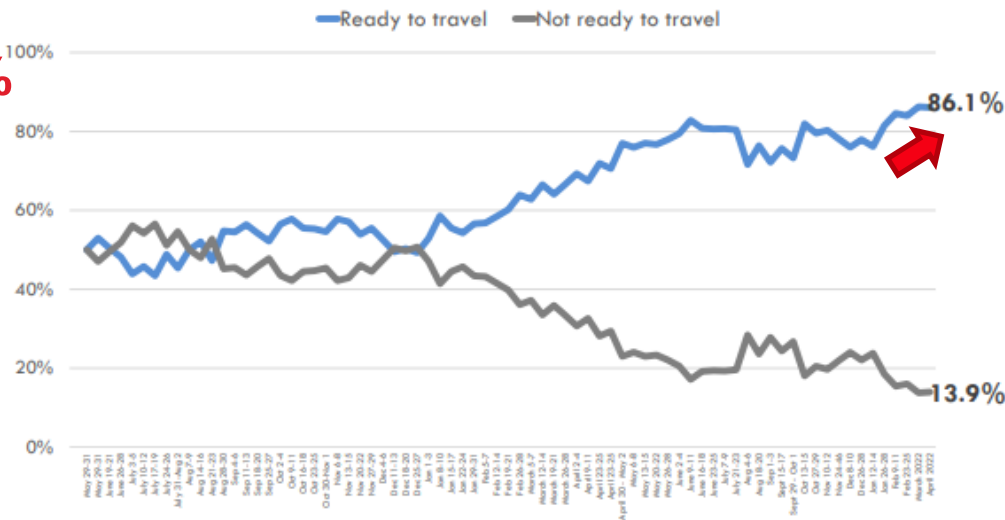
Consumers are in a travel state of mind

Question: When it comes to getting back out and traveling again, which best describes your current state of mind? (Select one)



86.1%

Historical data



(Base: All respondents, 4,060 completed surveys.)

Data collected April 18-24, 2022.)

May 2020 to April 2022

TRAVEL DEMAND

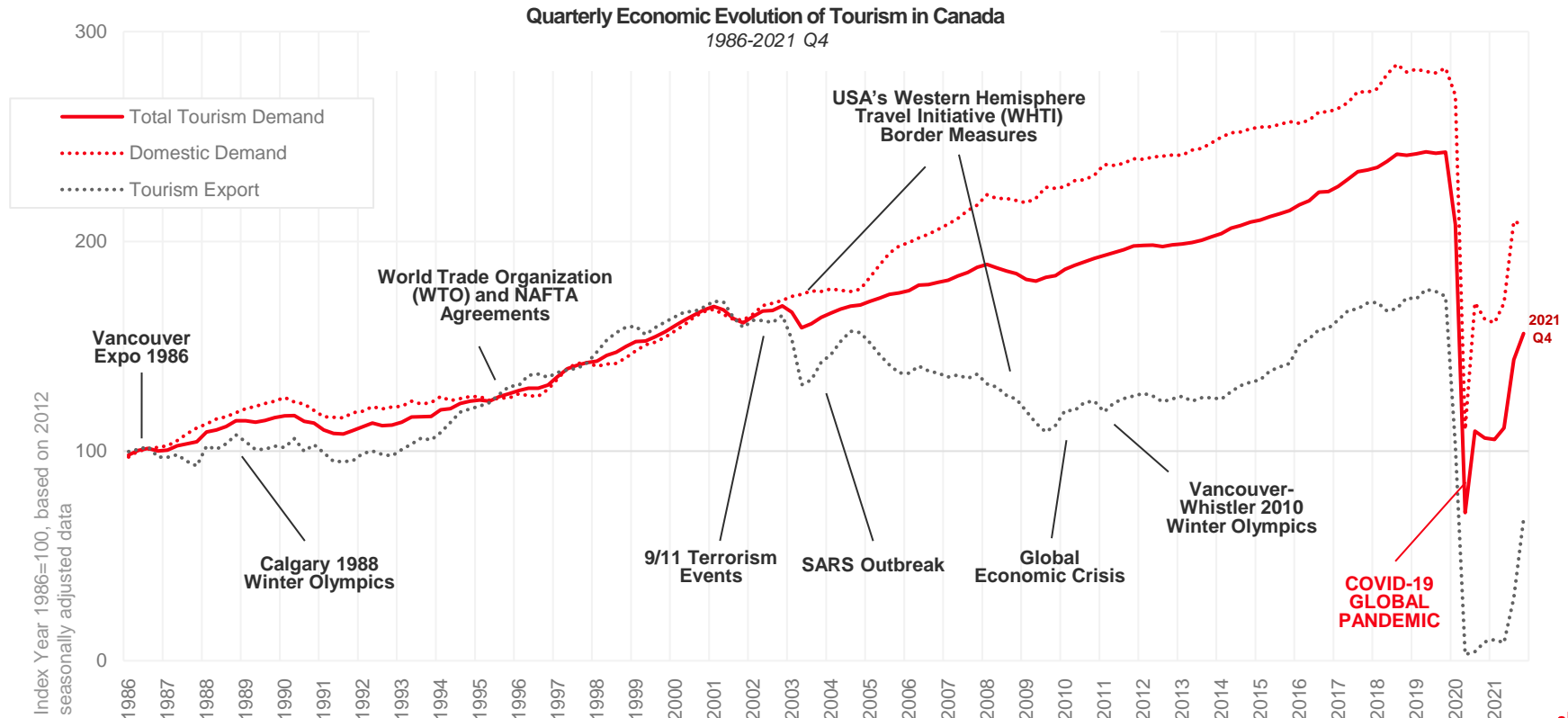


Kluane National Park

Yukon

CANADA*

Canadian tourism is on the recovery path, emerging from the deepest contraction on record to impact the global travel sector



Tourism-related activity continues its upward trajectory after the pace of recovery was impacted by Omicron

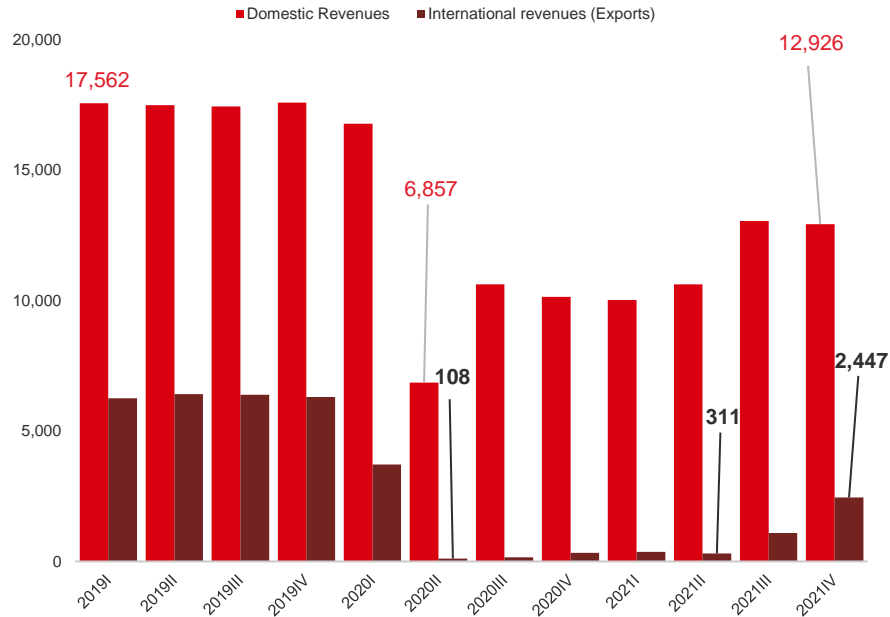
With high vaccination rates in Canada and in key international markets, domestic and international tourism activities have made sustained gains since the re-opening of Canada's borders to discretionary travel.

Following a slowdown associated with the spread of the Omicron variant, travel has been on the upswing since rebounding in February 2022.

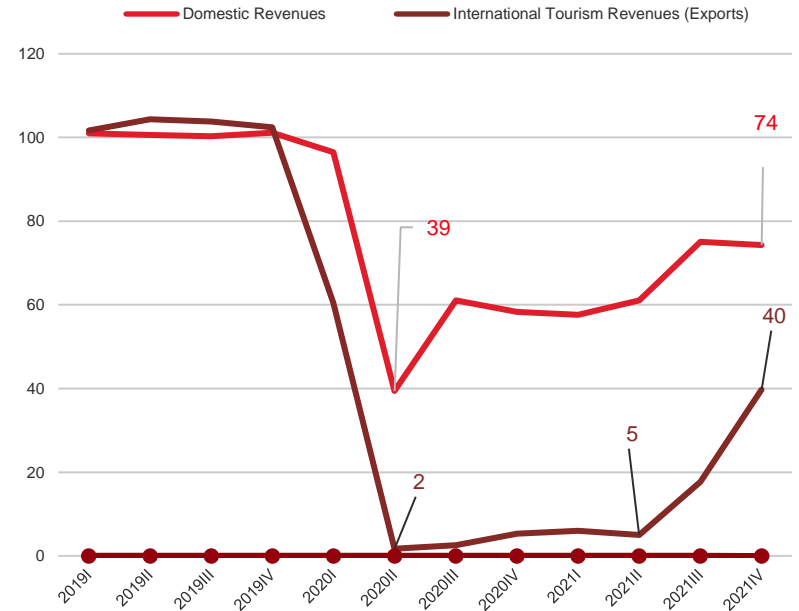


Domestic tourism is paving the road to recovery, but international revenues are now accelerating

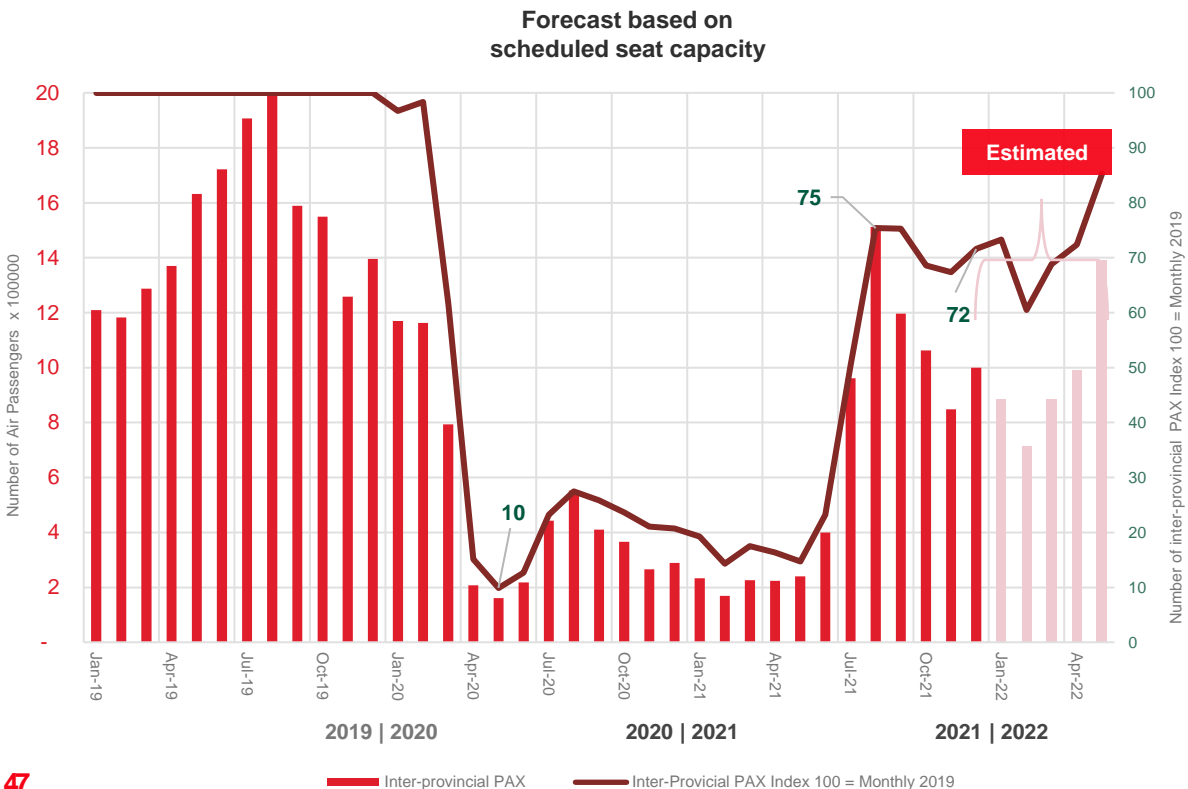
Seasonally adjusted constant 2012 dollar



Seasonally adjusted constant dollar, Index 100 = 2018 Average



Domestic will continue to drive the recovery, with a strong rebound of inter-provincial air travel






Flight bookings between provinces peaked in August 2021 at 75% of 2019 levels.

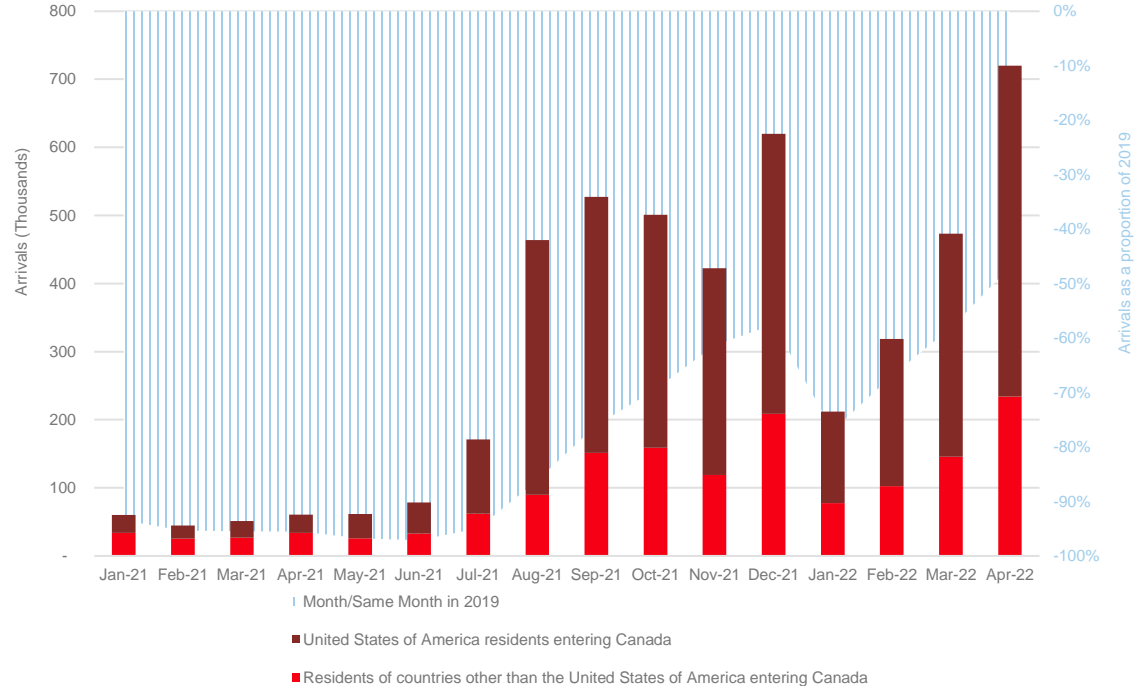
Following a drop in February 2022, correlating with the spread of the Omicron variant, inter-provincial travel is set to gain strong momentum in Spring 2022.

International arrivals are on an upward trajectory

Since the reopening of the Canadian border, international arrivals has improved. While April 2022 year-to-date stands at -61% of 2019, April 2022 monthly arrivals stood at **-47% of pre-COVID levels**.

Year to date Arrivals, April 2022			
	US	Other countries	Total
Air	450,450	522,489	972,939
	-63%	-60%	-61%
	(vs 2019)	(vs 2019)	(vs 2019)
Land	700,437	36,248	736,685
	-59%	-78%	-61%
	(vs 2019)	(vs 2019)	(vs 2019)
Water	13,337	1,127	1,163
	132%	-73%	46%
	(vs 2019)	(vs 2019)	(vs 2019)
Total	1,164,224	559,864	1,724,088
	-60%	-62%	-61%
	(vs 2019)	(vs 2019)	(vs 2019)

Monthly Arrivals of International Tourists in Canada



Arrivals from overseas markets closely tracking as forecasted

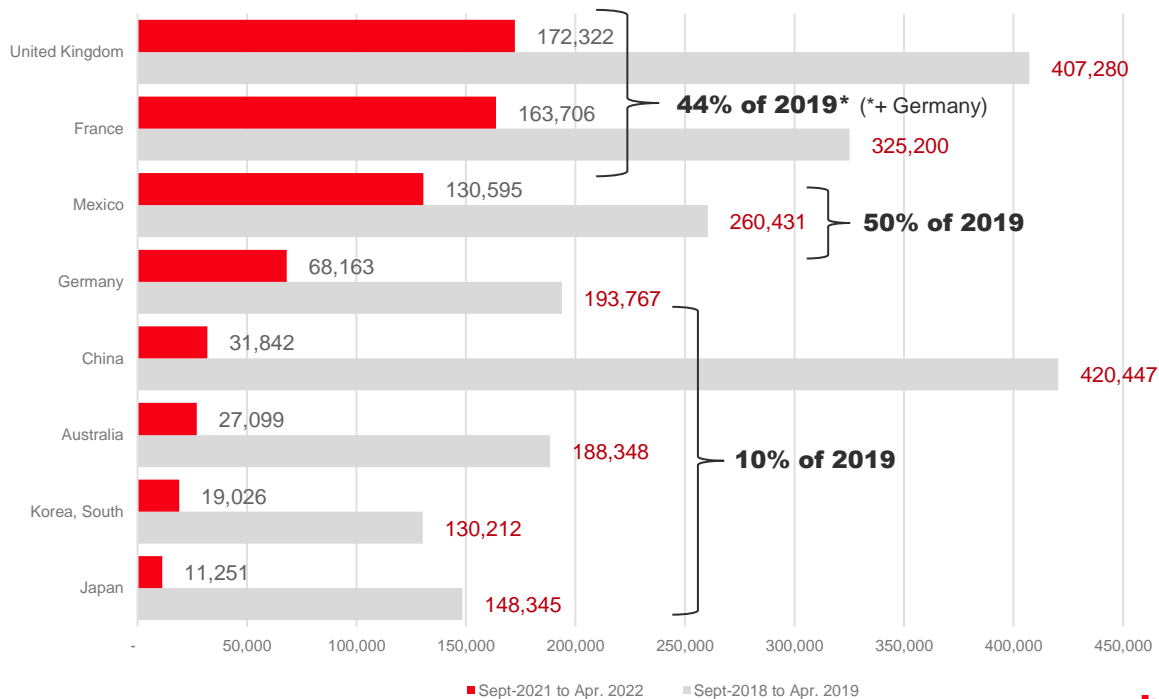
September 2021 (Border Re-opening) to April 2022

International arrivals from DC long-haul markets **recovered to 35%** of the equivalent period from September 2018 to April 2019.

France and **Mexico** have been the fastest recovering markets since September 2021, recovering to half of their pre-pandemic arrivals flow (50% of 2019 levels), ahead of the **UK** (42%) and **Germany** (35%).

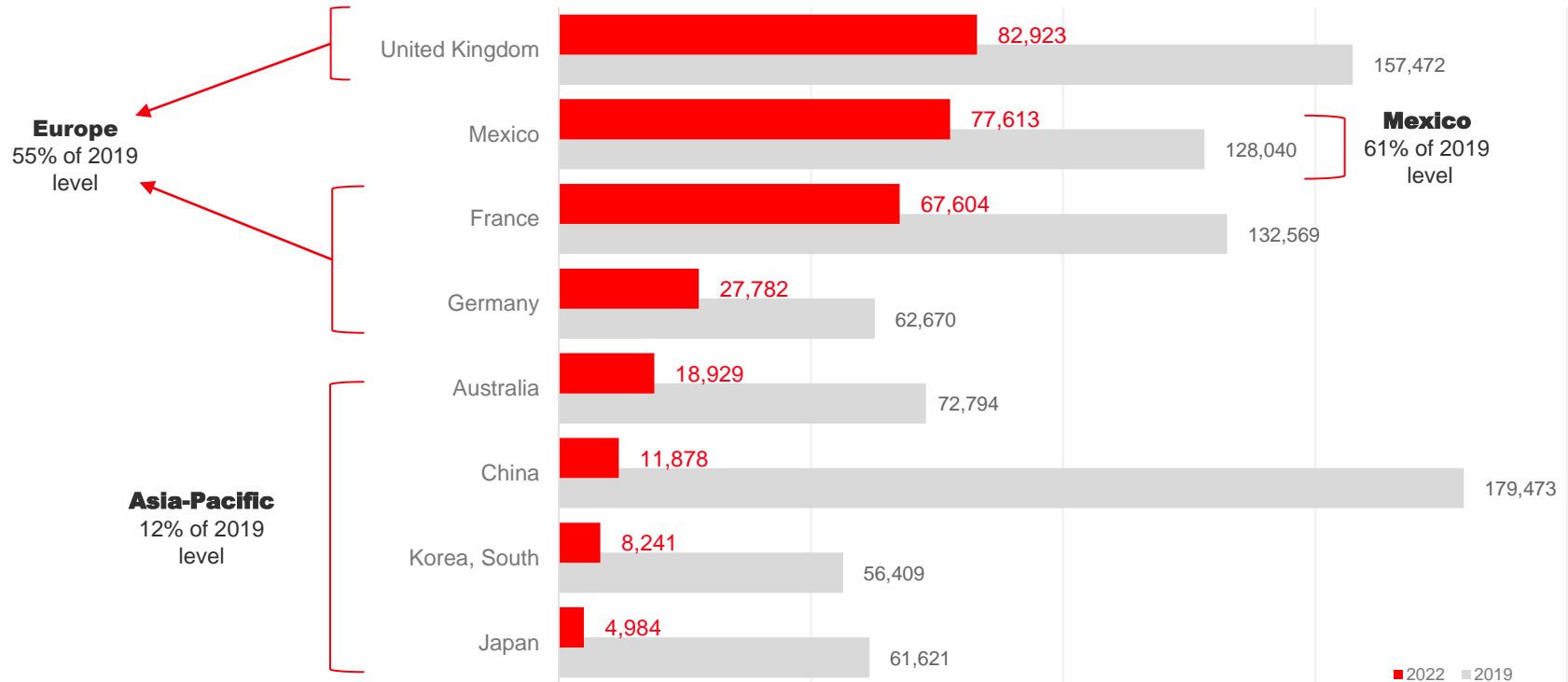
Asia-Pacific stands at 10% of 2019 levels, with **South Korea** at 15%, **Australia** at 14%, followed by **China** and **Japan** at 8% each.

Total arrivals of travellers, September 2021 to April 2022, compared to the same period pre-pandemic



Strong start to 2022 arrivals from Mexico and Europe

Total arrivals of travellers, Year-to-Date **April 2022**, compared to the same period pre-pandemic



Lift-off in arrivals from the United States

Amid stringent border crossing requirements to enter both Canada and the United States, overnight arrivals by air from the US reached 44% of the 2019 benchmark in December 2021.

Arrivals lost some steam from Omicron but have picked up-since February 2021 as concern over Omicron abided.

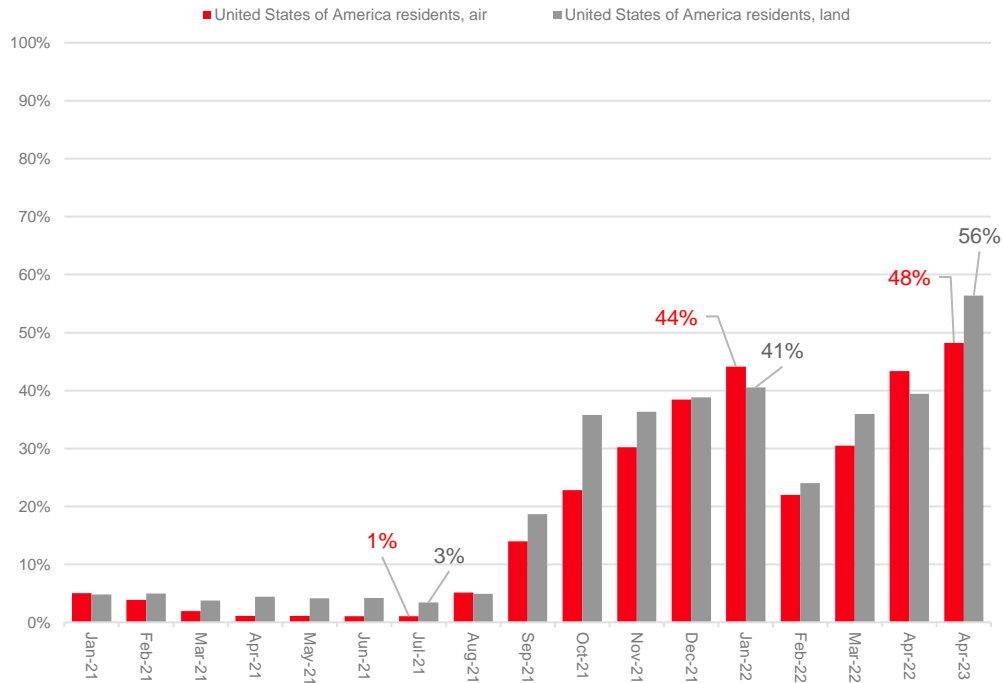
As of April 2022, overnight arrivals from the United States

- by air stood at 48% of 2019 levels,
- arrival by land reached 56% of 2019 levels.

Removal of the PCR testing requirement to enter Canada on April 1, 2022, and of a negative COVID-19 test result before boarding a flight to the US on June 12 should further accelerate the pace of recovery.

Recovery pace toward 2019 levels

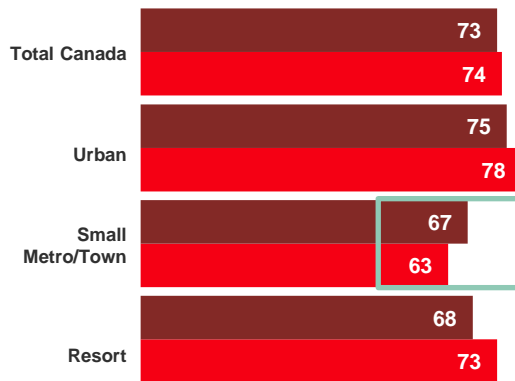
100% = 2019 overnight arrivals



Commerical accommodation average daily rates are surpassing 2019 levels across all location types

- Average daily rates (ADR) in Canada stood 9% above their 2019 levels in June 2022
- Urban locations are reporting strong financial performances amid occupancy rates nearing their 2019 levels

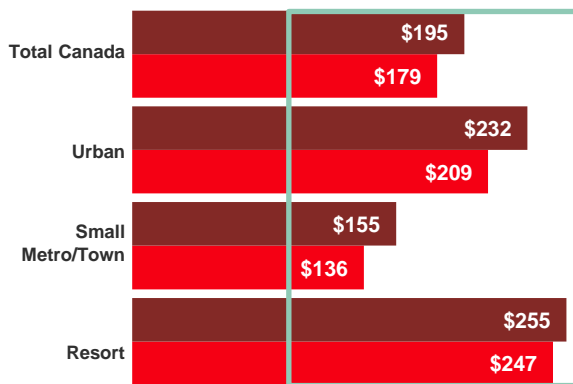
Occupancy Rates



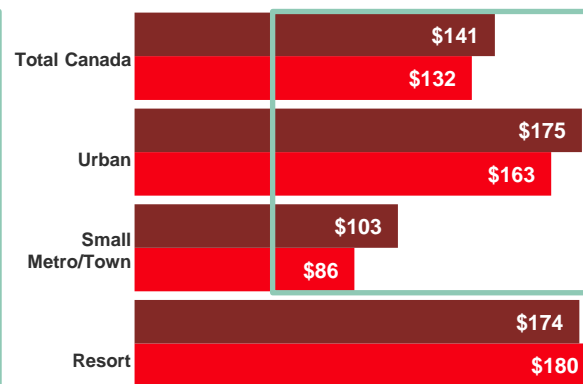
Average Daily Rates

Selected Canadian Locations – June of each year

■ 22-Jun ■ 19-Jun



Revenue per Available Room



Appendix

Results summary

Change in spending between scenarios in 2022

Key observations

Modeling indicates a total loss in Canada travel spending in 2022 of \$24.6 billion in the baseline and \$23.9 billion in the downside scenario, which would see Canadian spend in Canada outpacing losses from international visitors.

Overnight international spend in Canada, loss relative to 2019, \$million

Country	2019	Upside		Expected		Downside		Severe	
		Amount	%	Amount	%	Amount	%	Amount	%
United States	\$11,225	-\$5,578	-49.7%	-\$5,937	-52.9%	-\$6,206	-55.3%	-\$6,443	-57.4%
United Kingdom	\$1,345	-\$373	-27.7%	-\$481	-35.7%	-\$566	-42.1%	-\$647	-48.1%
France	\$958	-\$291	-30.4%	-\$291	-30.4%	-\$365	-38.1%	-\$425	-44.3%
China	\$1,802	-\$1,186	-65.8%	-\$1,313	-72.8%	-\$1,346	-74.7%	-\$1,376	-76.3%
Germany	\$739	-\$263	-35.5%	-\$294	-39.7%	-\$344	-46.6%	-\$399	-54.0%
Australia	\$775	-\$318	-41.1%	-\$340	-43.7%	-\$365	-47.1%	-\$386	-49.9%
Japan	\$476	-\$326	-68.5%	-\$327	-68.8%	-\$336	-70.6%	-\$347	-73.0%
Mexico	\$721	-\$428	-59.5%	-\$442	-61.4%	-\$465	-64.5%	-\$479	-66.5%
South Korea	\$379	-\$116	-30.8%	-\$142	-37.5%	-\$160	-42.2%	-\$170	-44.7%
Rest of world	\$4,273	-\$2,323	-54.4%	-\$2,380	-55.7%	-\$2,470	-57.8%	-\$2,664	-62.3%
Total international	\$22,692	-\$11,202	-49.4%	-\$11,947	-52.6%	-\$12,623	-55.6%	-\$13,336	-58.8%
Domestic	\$82,446	-\$6,687	-8.1%	-\$12,784	-15.2%	-\$11,391	-13.8%	-\$10,325	-12.5%
Net impact	\$105,138	-\$17,889	-17.0%	-\$24,731	-23.5%	-\$24,014	-22.8%	-\$23,661	-22.5%

Results summary

Change in spending between scenarios from 2022 to 2027 relative to baseline 2019 benchmark¹

Key observations

Amid a sustained recovery from COVID-19 between 2022 and 2027, the economic loss attributable to socio-economic headwinds triggered by the pandemic together with the impact of the Ukraine-Russia conflict on the global economy and air connectivity is expected to result in a shortfall of 3.8% to 4.7% relative the 2019 benchmark.

Overnight international spend in Canada, loss relative to 2019 baseline, \$million

Country	Based on 2019 Receipts	Upside		Expected			Downside		Severe	
		Amount	%	Amount	%	Return to 2019 Level	Amount	%	Amount	%
United States	\$67,349	-\$3,225	-4.8%	-\$5,221	-7.8%	2025	-\$7,292	-10.8%	-\$9,852	-14.6%
United Kingdom	\$8,071	\$88	1.1%	-\$414	-5.1%	2025	-\$835	-10.4%	-\$1,292	-16.0%
France	\$5,750	-\$223	-3.9%	-\$556	-9.7%	2025	-\$839	-14.6%	-\$1,143	-19.6%
China	\$10,812	-\$2,508	-23.2%	-\$3,573	-33.0%	2026+	-\$3,837	-35.5%	-\$4,188	-38.7%
Germany	\$4,432	-\$301	-6.8%	-\$446	-10.0%	2025	-\$692	-15.6%	-\$962	-21.7%
Australia	\$4,647	-\$110	-2.3%	-\$242	-5.2%	2025	-\$338	-7.3%	-\$501	-10.8%
Japan	\$2,855	-\$596	-20.9%	-\$609	-21.3%	2026	-\$699	-24.5%	-\$824	-28.9%
Mexico	\$4,324	-\$557	-12.9%	-\$667	-15.4%	2026	-\$754	-17.4%	-\$834	-19.3%
South Korea	\$2,276	-\$129	-5.7%	-\$265	-11.6%	2026	-\$351	-15.4%	-\$439	-19.3%
Rest of world	\$25,639	-\$2,187	-8.5%	-\$2,870	-11.2%		-\$3,954	-15.4%	-\$6,285	-24.5%
Total international	\$136,155	-\$9,749	-7.2%	-\$14,528	-10.8%		-\$19,309	-14.9%	-\$26,016	-19.1%
Domestic	\$494,673	\$16,589	3.4%	-\$9,139	-1.9%	2023	-\$6,148	-1.2%	-\$3,444	-0.7%
Net impact	\$630,828	\$6,840	1.1%	-\$23,667	-3.8%	2025	-\$25,456	-4.0%	-\$29,460	-4.7%