RBC Economics

Current Analysis

Canadian tourism sector primed for early recovery after bleak year

July 6, 2021

Key Points

- Domestic demand will spark a revival of tourism activity ahead of border re-opening
- Early signs of renewed interest in travel activities already emerging, though international travel will be slower to return
- Sector still badly wounded, with damage distributed unevenly across provinces

With Canadians still staying close to home, domestic holidays matter more than ever

Canada's beleaguered tourism industry is finally showing signs of life as the economy begins to re-open. International travel continues to be discouraged and borders remain tightly controlled despite quarantine exemptions for fully-vaccinated Canadian residents. Nevertheless, around 80% of tourism spending in a normal year comes from domestic demand - making virus spread and containment measures a far larger drag than the closed border.

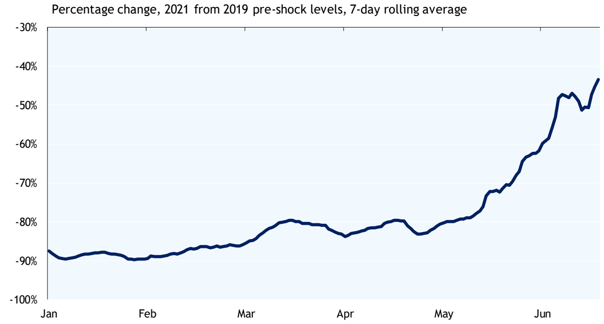
Just as foreign travellers were having a hard time entering this country, Canadians had to stick closer to home. As a result, the stock of potential 'tourists' within Canadian borders is almost 1 million people larger than usual. Indeed, in the 5 years before the pandemic, Canadians spent almost twice as much on international trips as foreigners did in Canada. Redirecting some of that spending to homegrown tourism activities will help support a recovery, despite a slower expected rebound in international demand. Early data is already pointing to green shoots emerging with spending on hotels, restaurants, and even travel moving up as vaccinations accelerate, case counts plummet and restrictions continue to ease country-wide.

Provinces bear uneven burden

Though tourism industries have been among the worst-hit sectors in the pandemic, domestic tourism has, unsurprisingly, held up better than international. Statistics Canada estimated that as of April (in the spring virus wave) overall tourism activity was down 66% from pre-shock levels, and a whopping 92% for internationally generated tourism. Some regions rely more on international visitors than others. About 40% of pre-pandemic tourism spending in BC and PEI, for example, came from visits from abroad. Trips across provincial borders have also been heavily restricted,

Travel spending showing green-shoots as restrictions ease

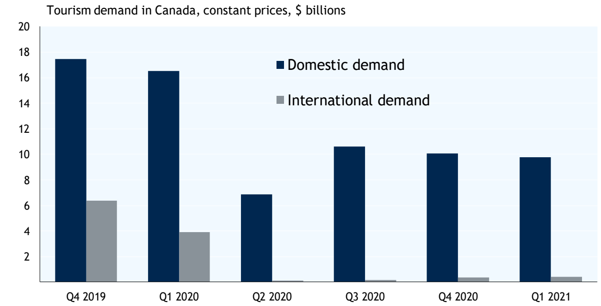
Percentage change, 2021 from 2019 pre-shock levels, 7-day rolling average



Travel spending includes: Travel, Travel agencies, Airlines and Car rental
Source: RBC Economics, RBC Data & Analytics

Domestic tourism sharply lower, but international travel vanished

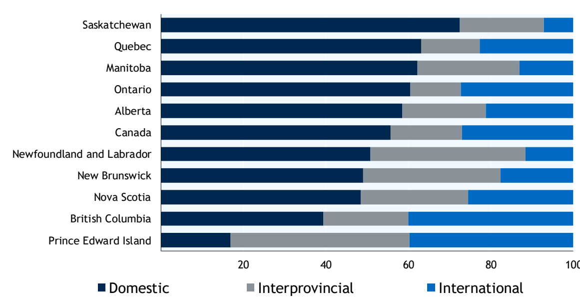
Tourism demand in Canada, constant prices, $ billions



Source: Statistics Canada, RBC Economics

Some provinces rely more on international tourists than others

% of total annual (2017) tourism demand by source



Source: Statistics Canada, RBC Economics

Nathan Janzen | Senior Economist | 416-974-0579 | nathan.janzen@rbc.com
Claire Fan | Economist | 416-974-6930 | claire.fan@rbc.com

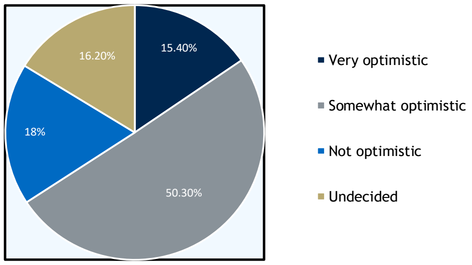
impacting provinces in Atlantic Canada where interprovincial travel has been a more important source of tourism demand.

For the sector as a whole, there is a long runway to recovery given the incredibly weak starting point. Over half of tourism employment is in accomodation and food services, which accounted for almost two thirds of the overall jobs shortfall versus pre-pandemic levels in May. The number of active businesses within the sector remained much lower than the average among all industries, with many still relying heavily on government support measures for funding.

But there are growing reasons to expect the second half of the year will look substantially better. Back in the midst of the spring virus wave in April, businesses in the tourism sector were understandably still pessimistic about the near-term outlook, but the majority were at least somewhat optimistic about the outlook for the next 12 months, according to the Q2 Canadian Survey on Business Conditions.

More travel businesses were optimistic about long run prospects

% of businesses surveyed regarding outlook for the tourism sector in the next 12 months



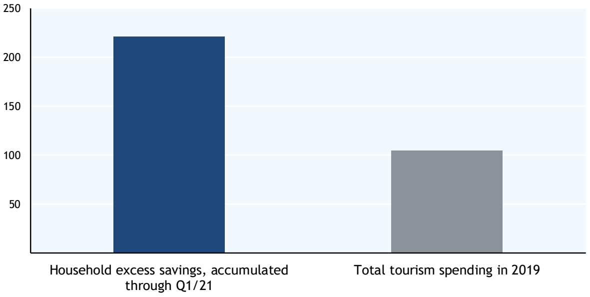
Source: Statistics Canada Q2 Canadian Survey on Business Conditions, RBC Economics

US bounce-back a sign of things to come?

Unlike a 'typical' recession-recovery, households are exiting the pandemic with record spending power—after a year of government aid and limited spending options boosted savings. The total amount of excess savings accumulated through the first quarter of 2021 was more than enough to cover pre-pandemic total tourism expenditure in Canada for more than 2 years. More recently, an easing in restrictions, although varied by region, has allowed for early signs of a recovery in spending on airfares and car rentals.

Households banked 2 years worth of tourism spending during pandemic

Billions of Canadian $

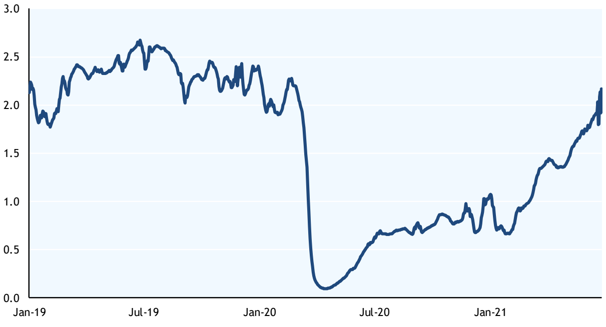


Source: Statistics Canada, RBC Economics

And there are reasons for more optimism. US visitors typically account for almost two-thirds of international tourists in Canada, and that's where we've seen travel demand rebound almost in lock-step with the loosening of containment measures, thanks to a speedier early vaccine rollout. Spending on food services rose significantly in the US—jumping 2% above pre-pandemic levels in May, up from 16% below in February. And airport traffic also rebounded, returning to over 80% of 2019 levels as of late June. The stronger Canadian dollar vs. pre-pandemic levels means trips to Canada might be a little more expensive, but households south of the border have likewise accumulated a huge stockpile of savings through the pandemic, and we expect CAD to soften somewhat into the end of the year.

TSA traveller throughput showed improved US air travel

Millions of traveller throughput, 7-day rolling average



Source: Statistics Canada, RBC Economics

To be sure, overall tourism demand will not go back to normal overnight, and it's still unlikely that the industry will be operating at pre-pandemic levels in the near future. International travel flows will remain sluggish given an uneven global vaccine rollout, and business-related travel activity will also likely be slower to bounce back. The spread of new virus variants remains a risk in the near-term.

Ultimately, it will take a combination of higher vaccination levels, fewer unemployed workers, improved traveller confidence and a reopening of the border before the sector will make a full recovery. And we don't expect that to happen until 2022. In the mean-time, there is hope that some amount of international tourism can be replaced by domestic and interprovincial activities, as virus concerns ease, domestic restrictions recede and travel sentiment improves.