



2023 Tourism Outlook Briefing

October 4, 2022

Welcome

VAN
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Today's Agenda



9:00am	Welcoming Remarks	Karen Soyka, Vice-President, Strategy & Business Development <i>Destination Vancouver</i>
9:10am	Agenda Speaker Introduction	Eugene Chu, Manager, Research & Business Insights <i>Destination Vancouver</i>
9:15am	Economic Outlook	Pedro Antunes, Chief Economist <i>The Conference Board of Canada</i>
10:00am	Q&A	Pedro Antunes/Eugene Chu
10:25am	<i>Break</i>	<i>All</i>
10:40am	Speaker Introduction	Eugene Chu, Manager, Research & Business Insights <i>Destination Vancouver</i>
10:45am	Tourism Outlook	Kiefer Van Mulligen, Economist, Economic Forecasting <i>The Conference Board of Canada</i>
11:30am	Q&A	Kiefer Van Mulligen/Eugene Chu
11:55am	Close & Next Steps	Eugene Chu, Manager, Research & Business Insights <i>Destination Vancouver</i>
Noon	End	All

Our Speakers Today



Pedro Antunes
Chief Economist
The Conference Board of Canada



Kiefer Van Mulligen
Economist, Economic Forecasting
The Conference Board of Canada

Inflation, Pandemic and War

Forecasting Canada's Economy in a Time of Uncertainty

Pedro Antunes, Chief Economist



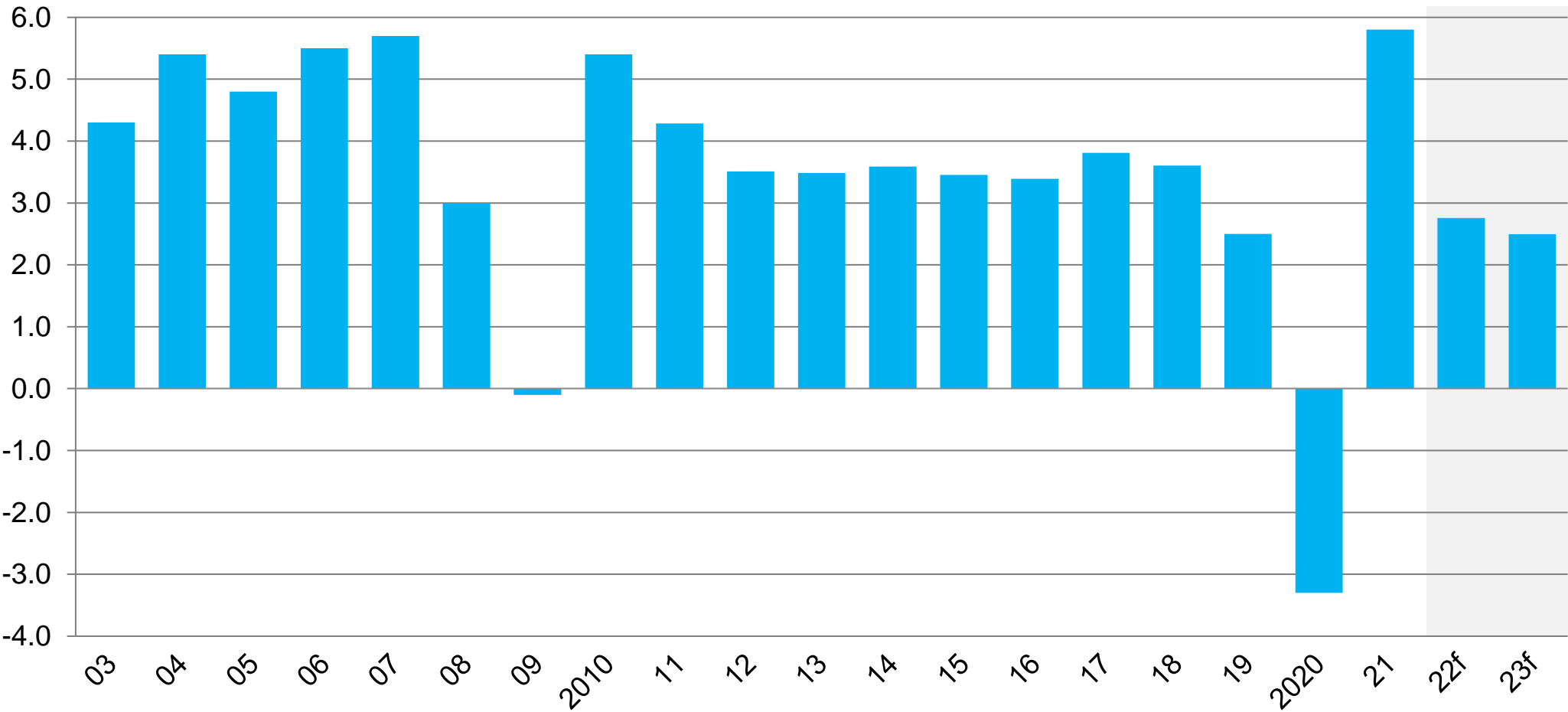
World Outlook—Near Term Fraught with Risks



- The war in Ukraine has resulted in even higher inflation and has led us to lower global GDP growth this year from 4.4 to 2.8 per cent. In 2023, growth of just 2.5 is expected.
- High inflation in most of the world's major economies has forced central banks to sharply accelerate the pace of interest rate increases to contain inflation expectations. This has hurt business and consumer confidence.
- Europe has been especially hard hit by the global surge in inflation because it was dealing with rising energy prices even before the onset of the war. The sanctions on Russia's energy exports to the European Union led to a startling 40 per cent increase in energy prices across Europe.
- China won't pick up the slack in the global economy caused by weaker growth in the United States and Europe. China's GDP will advance by less than 4.0 per cent this year due to challenges in real estate and high tech plus the lingering effects of Pandemic related shutdowns.
- Emerging markets are having an especially difficult time as many are dealing with high inflation, food shortages and pressure on their currencies due to the surging value of the greenback.

Tumbling Global Growth

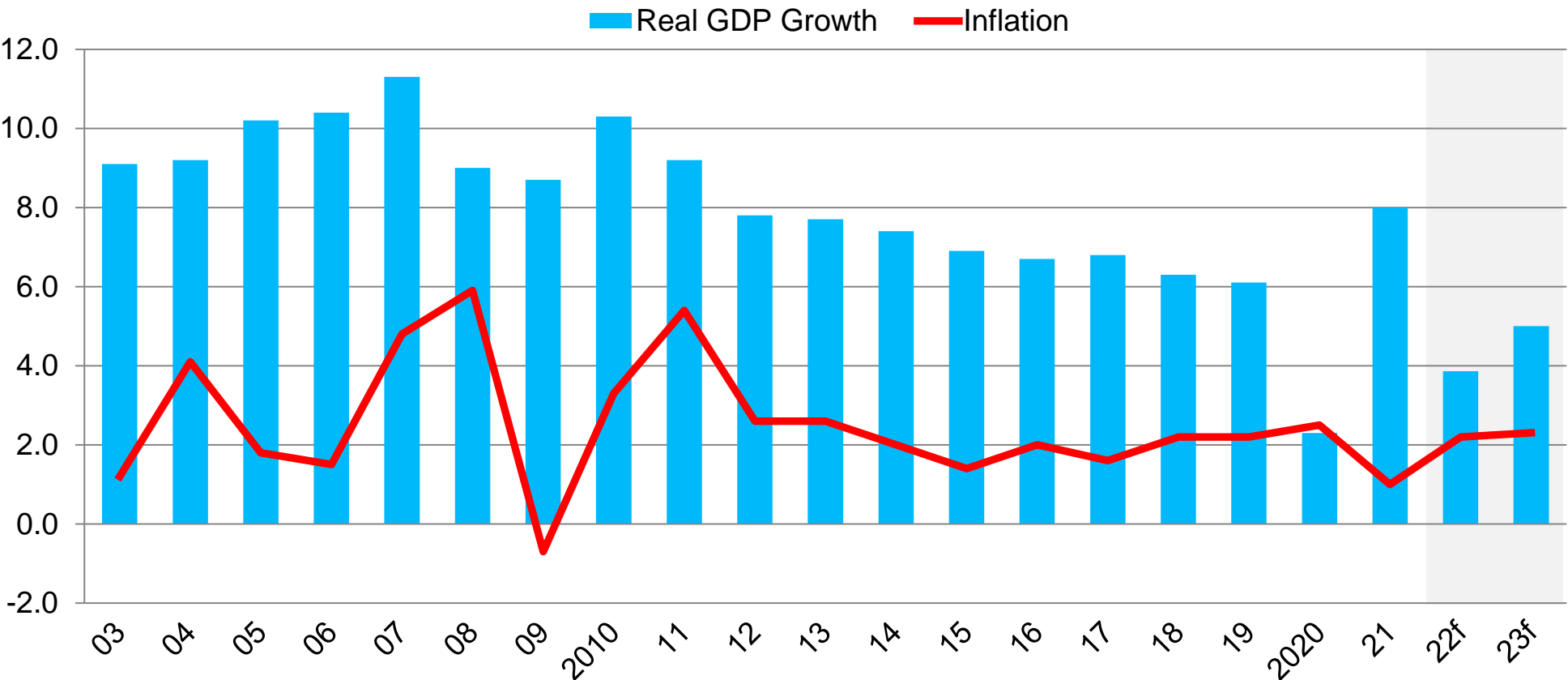
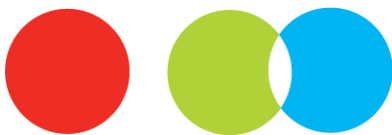
World real GDP growth, per cent change and average annual per cent change



Sources: International Monetary Fund; Consensus Economics; The Conference Board of Canada.

China's Economic Slowdown

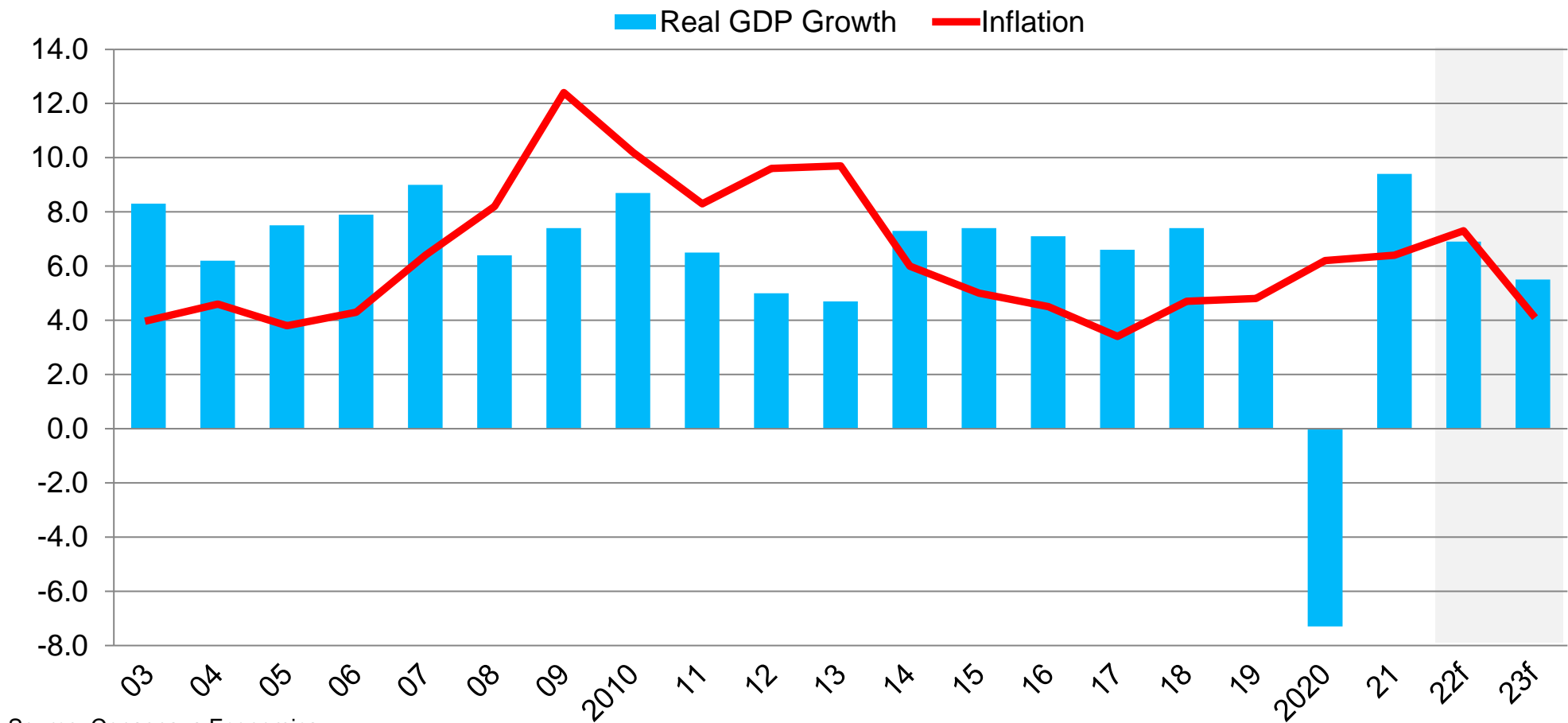
real GDP, per cent change and average annual per cent change



Source: Consensus Economics.

Will India live up to Expectations

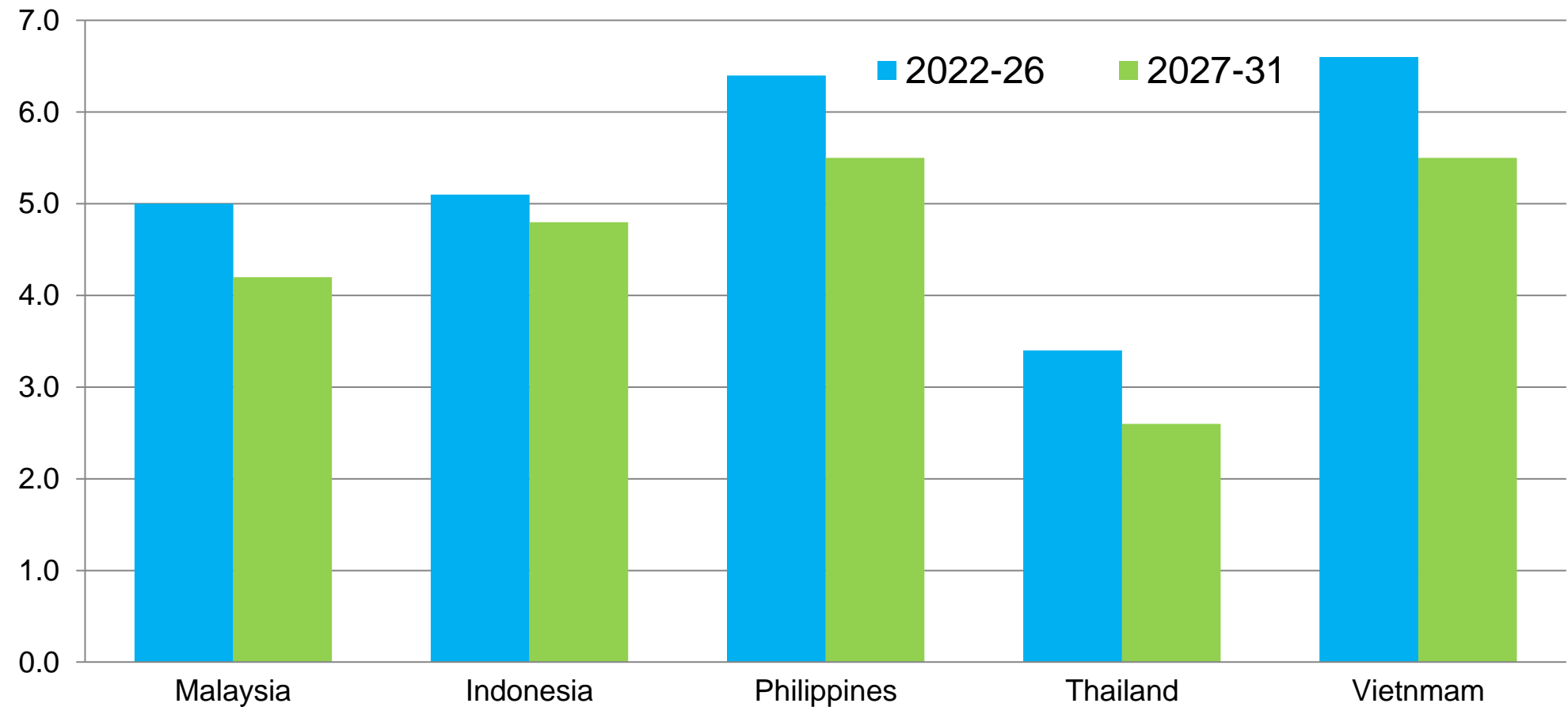
real GDP, per cent change and average annual per cent change



Source: Consensus Economics.

ASEAN Economic Union Provides Opportunities

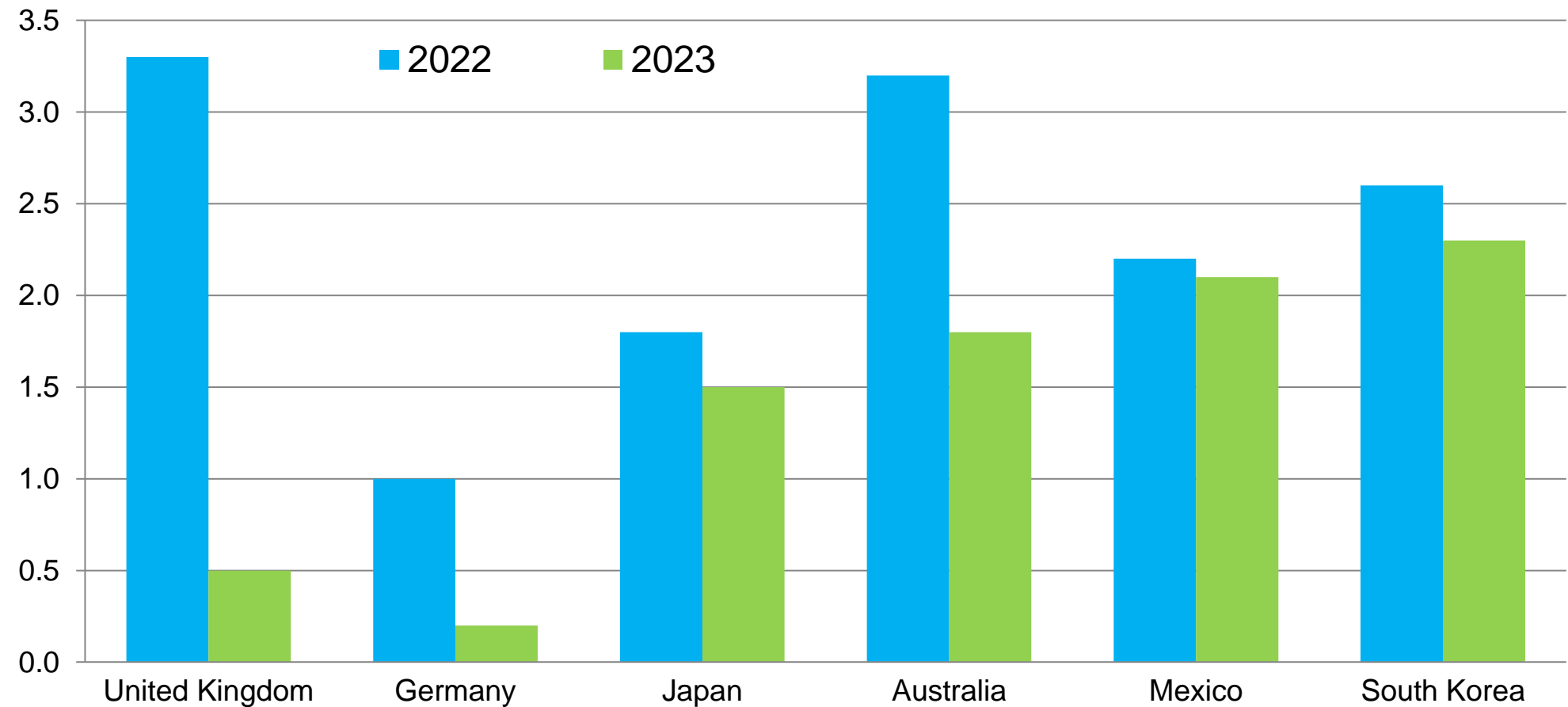
real GDP, average annual per cent change



Source: Consensus Economics.

Europe Hard Hit by Energy Prices

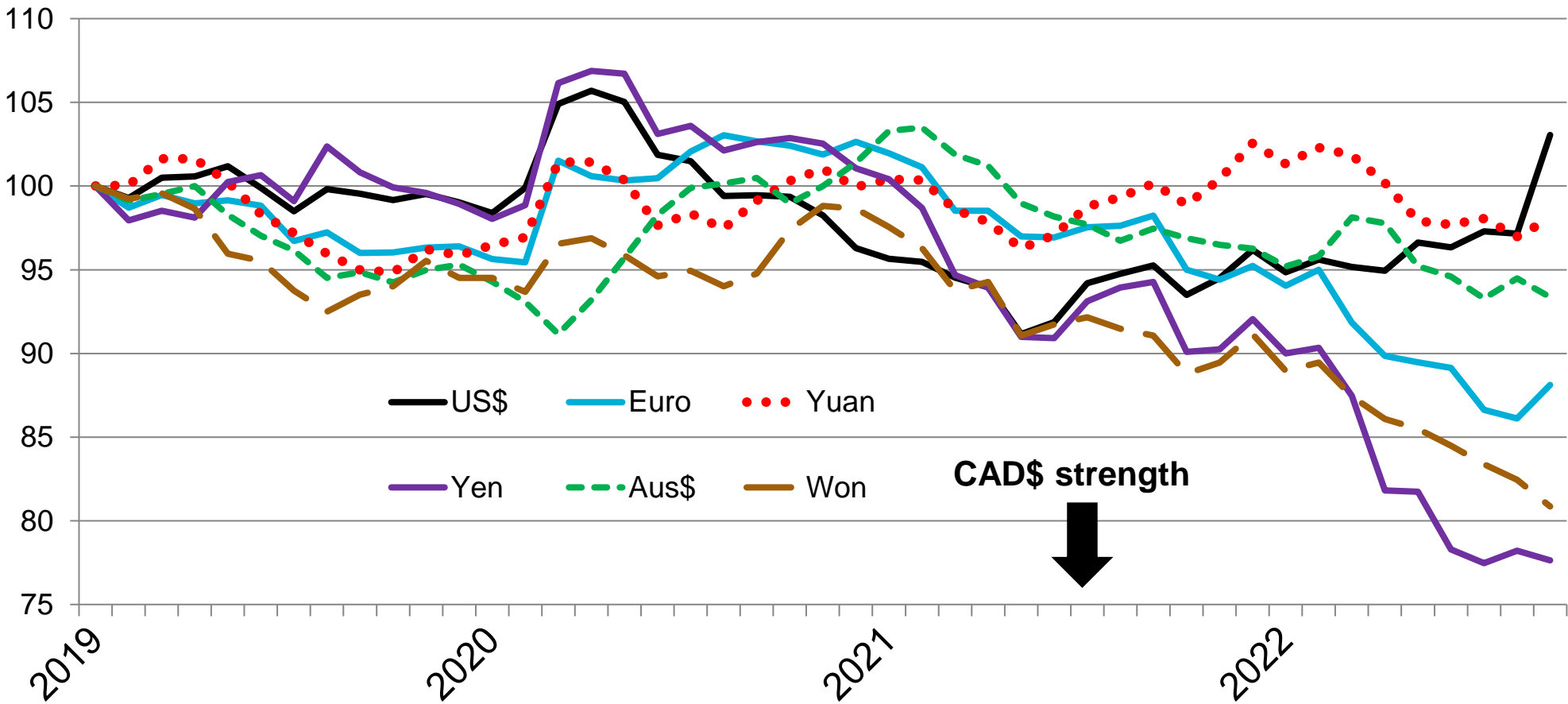
real GDP, average annual per cent change



Source: Consensus Economics.

Loonie Holds up Better than Most

CAD\$ per FX indexed, January 2019 =100; monthly to end of September 2022



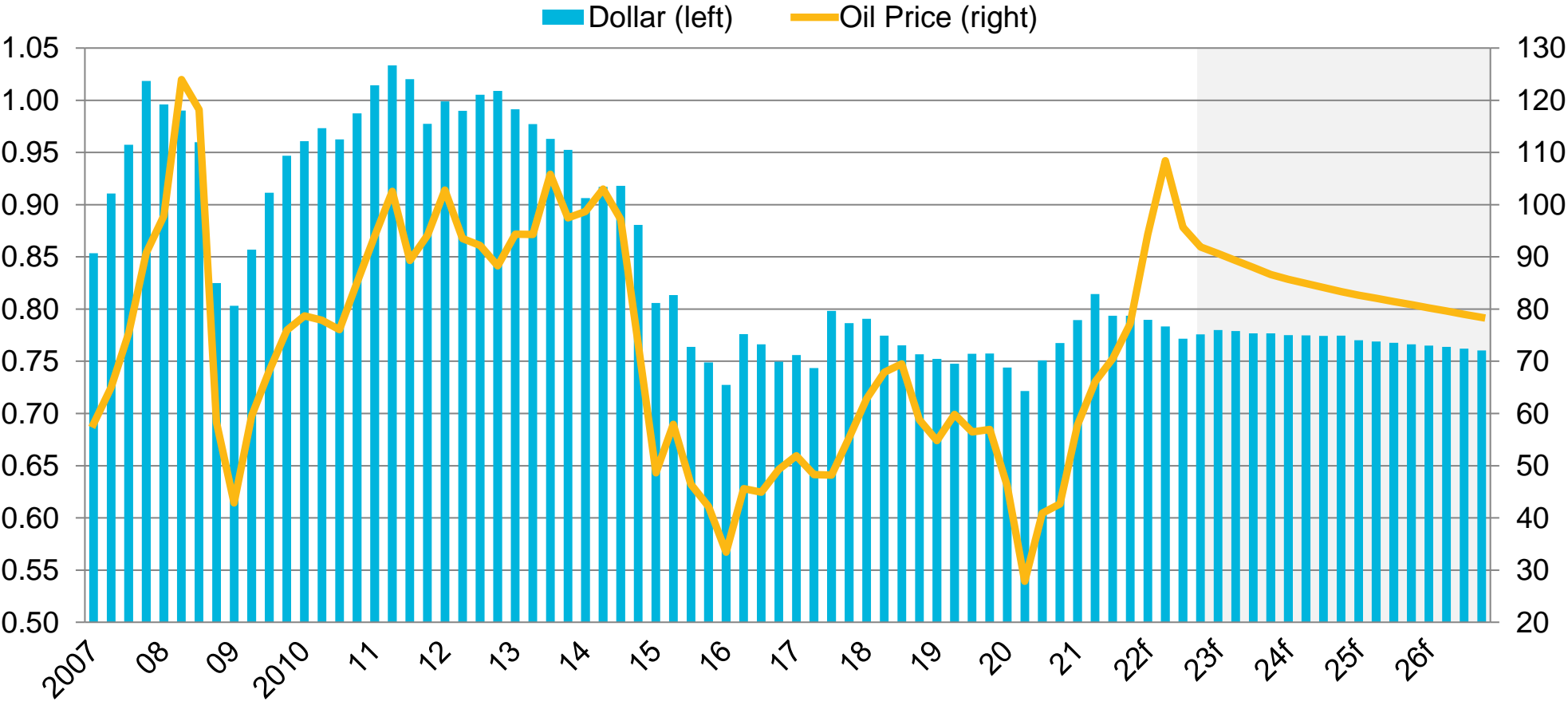
CAD\$ strength



Source: Bank of Canada.

Oil's Wild Ride

(WTI \$US, \$US/\$C)



Sources: U.S. Energy Information Administration; Statistics Canada; The Conference Board of Canada.

The War in Ukraine



- Vladimir Putin's war is a tragedy that has resulted in thousands of innocent civilian lives lost and millions displaced. Ukrainians and Russians are being killed in battle, and Ukraine's cities and infrastructure are being turned to rubble. The economic fallout for both countries is devastating, and the effects are being felt globally.
- The economic fallout was a massive commodity price shock. Unless Putin is overthrown, we assume that sanctions will persist, and commodity prices will remain elevated over the medium term.
- For many countries, including Canada's important trading partners, the war is having a significant negative impact on consumer spending and real GDP.
- We estimate the net impact for Canada as neutral because raw material and agricultural producers and exporters benefit from higher prices.
- A refugee crisis, post-war rebuilding and expanded military spending will add to public spending and debt.

Commodity Prices Spike

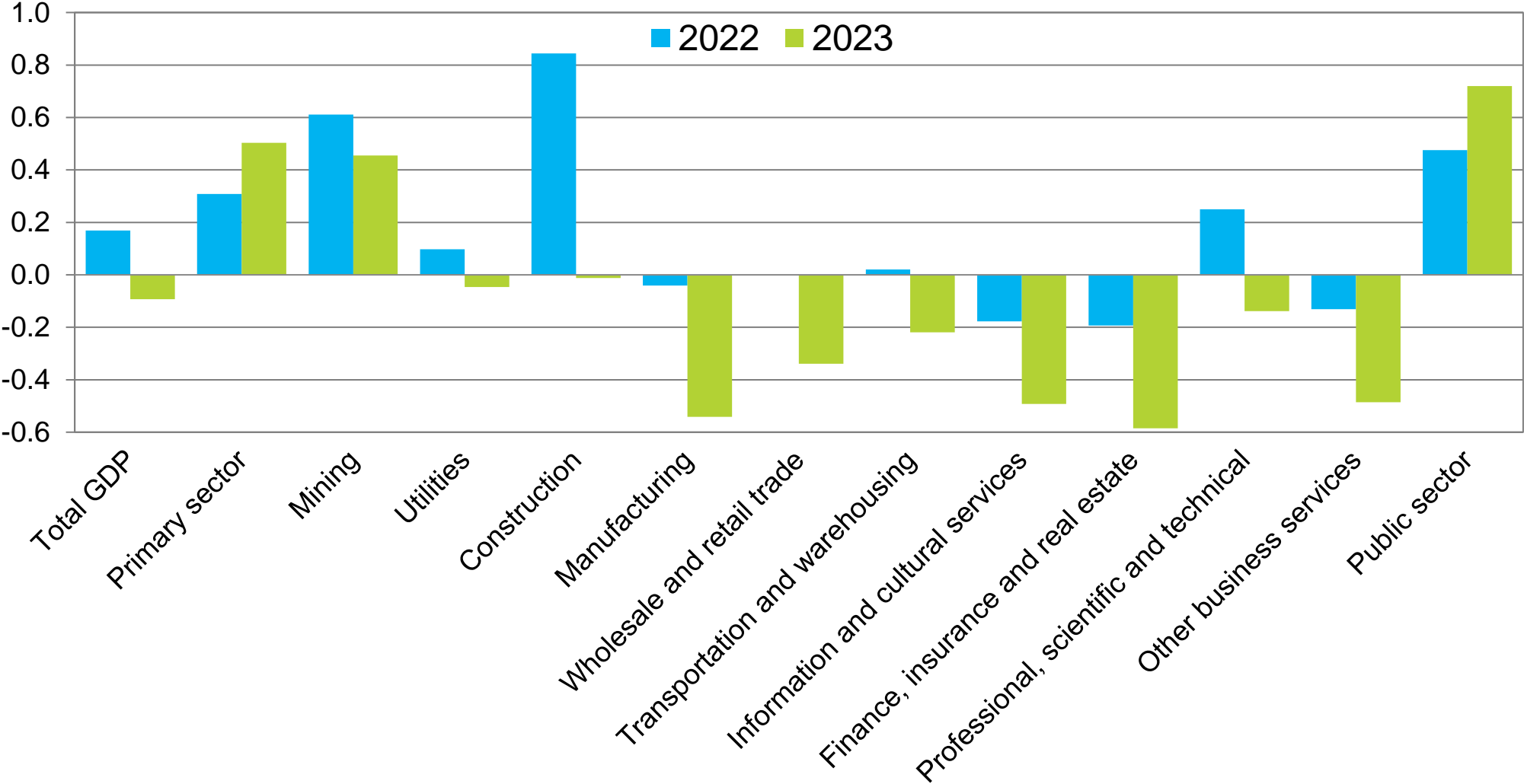
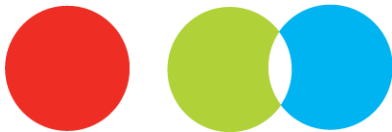
(Bank of Canada commodity price index; to Sept 2022; 1972m1 = 100)



Source: <https://www.bankofcanada.ca/rates/price-indexes/bcpi/>

Impact on Canada

real GDP impact, per cent



Source: The Conference Board of Canada.



United States Economy

Inflation Eats Away at Excesses

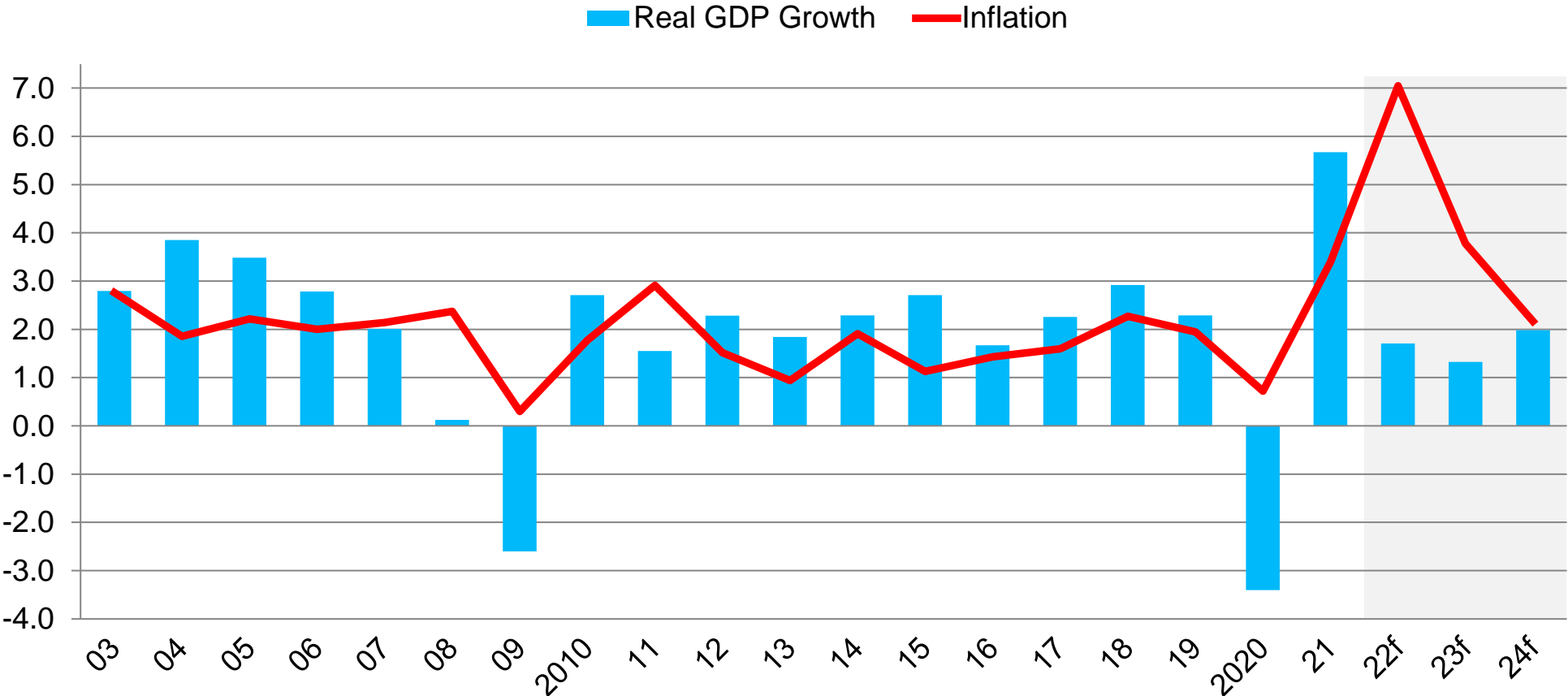
U.S. Outlook



- The US economy is set to increase by 2.4 per cent this year and 1.3 per cent in 2023, the anticipated strong rebound has been worn away by inflation.
- Consumer prices will increase 7 per cent this year, we haven't seen annual inflation like this since 1981. Reading the "tea leaves" on bond yields tells us that inflation expectations have come down since the war started. We expect inflation to ease to 3.7 per cent in 2023.
- The Federal Reserve has hiked interest rates by 300 basis points since March—from 0.25 to 3.25. The Fed is suggesting that rates need to keep going up to beat back inflation, even if it results in a hard landing.
- Still, US consumer have excess savings and this, coupled with pent-up demand for cars and houses, suggests higher rates won't undermine the activity in these industries the way they have in business cycles past.
- Labour markets remain hot—since the start of the year, employment surged by 3.5 million and the unemployment rate sat at 3.7 per cent in August.

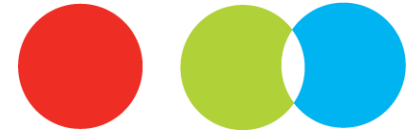
Weaker Growth Helps Settle Inflation

United States real GDP and inflation, per cent change

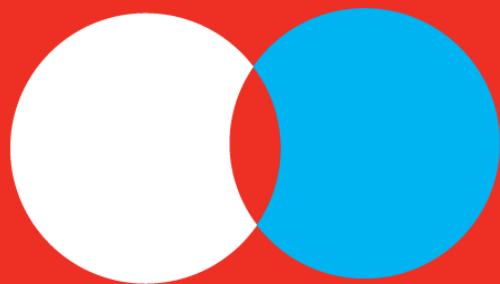
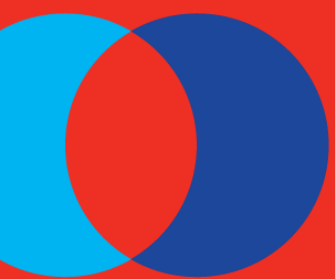


Sources: BEA; The Conference Board of Canada.

Why the U.S. Could Avoid Recession



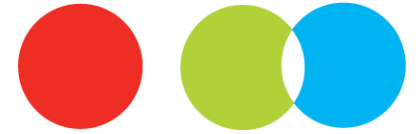
- Healthy balance sheets for both consumers and most businesses.
- Record high job openings could enable the U.S. economy to slow down and take the pressure off wage increases without the usual increase in layoffs.
- Excess savings of around \$2.5 trillion could enable consumers to keep on spending even though wage increases aren't keeping up with inflation – wages increasing at about a 5.0 per cent pace versus inflation of close to 8.0 per cent
- There's still plenty of pent-up demand for homes and cars despite rising interest rates.
- Despite these benefits, if inflation doesn't start to come down as expected, the Fed will keep raising rates. Overshooting on rates could drive the economy into recession late next year. The current odds of a recession are high, in the 60 to 70 per cent range.



Canada's Outlook

Inflation Eats Away at Excesses

Like no Other Recession



- Massive fiscal support has allowed most households and businesses to come through the pandemic unscathed, despite the deep recession and job losses
- Household balance sheets are in great shape—labour market recovery will support consumer spending
- Business profits soar to peak levels but spending on structures and machinery is lagging
- Exports and resource prices bolstered by global recovery
- Borders are finally reopening, helping to boost tourism, air transportation and aerospace manufacturing sectors
- However, supply chain constraints, inflation and rising interest rates will take a bite out of growth

Support Measures by the Numbers



Federal government:

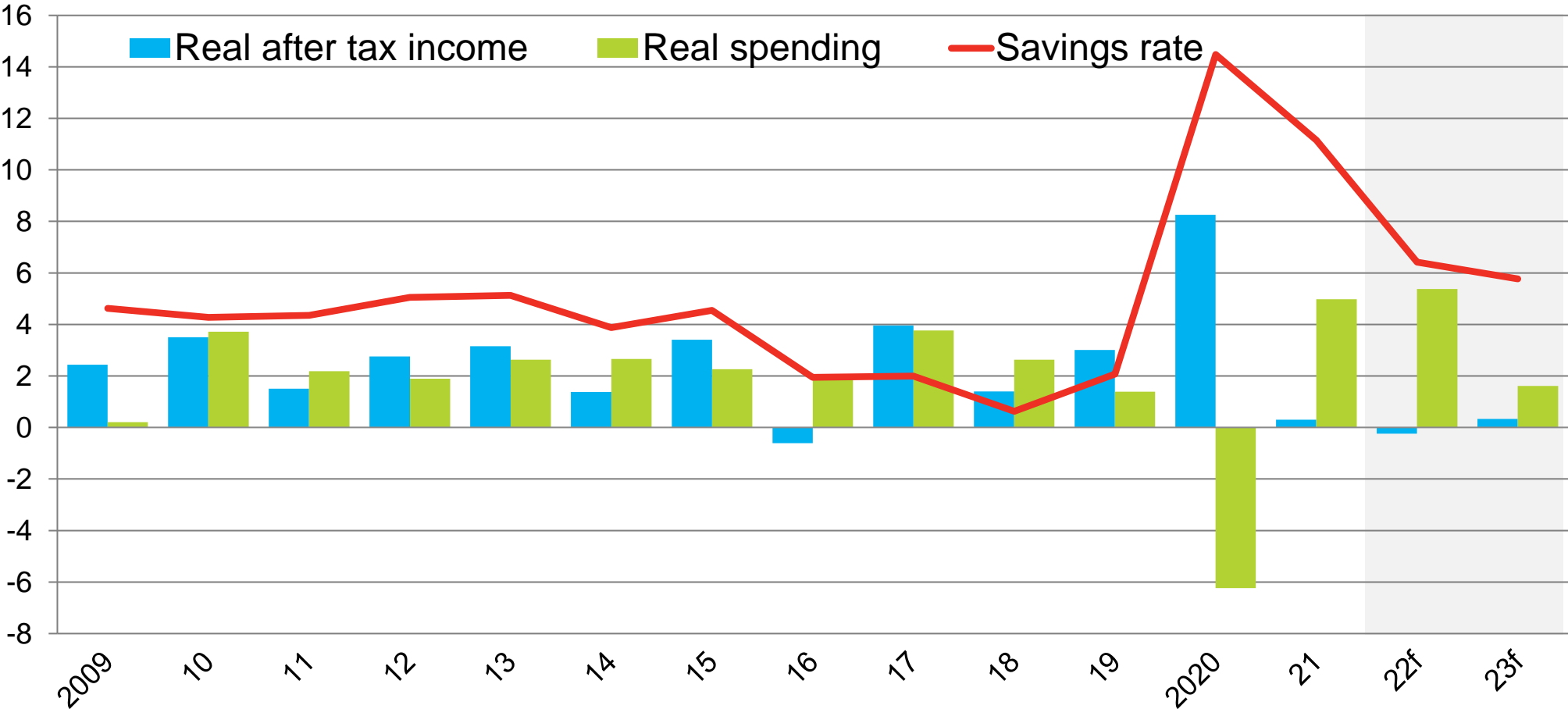
Direct support to households and firms and to fight COVID-19	\$322.3
Tax payment deferrals	\$ 85.1
Credit Support	\$ 83.4
Federal Total (20 per of GDP)	\$490.7

Provinces & Territories:

Direct support to households and firms and to fight COVID-19	\$ 60.1
Tax payment deferrals	\$ 39.4
Credit Support	\$ 3.3
Provincial Total (4.2 per of GDP)	\$102.8

Record Growth in Household Income

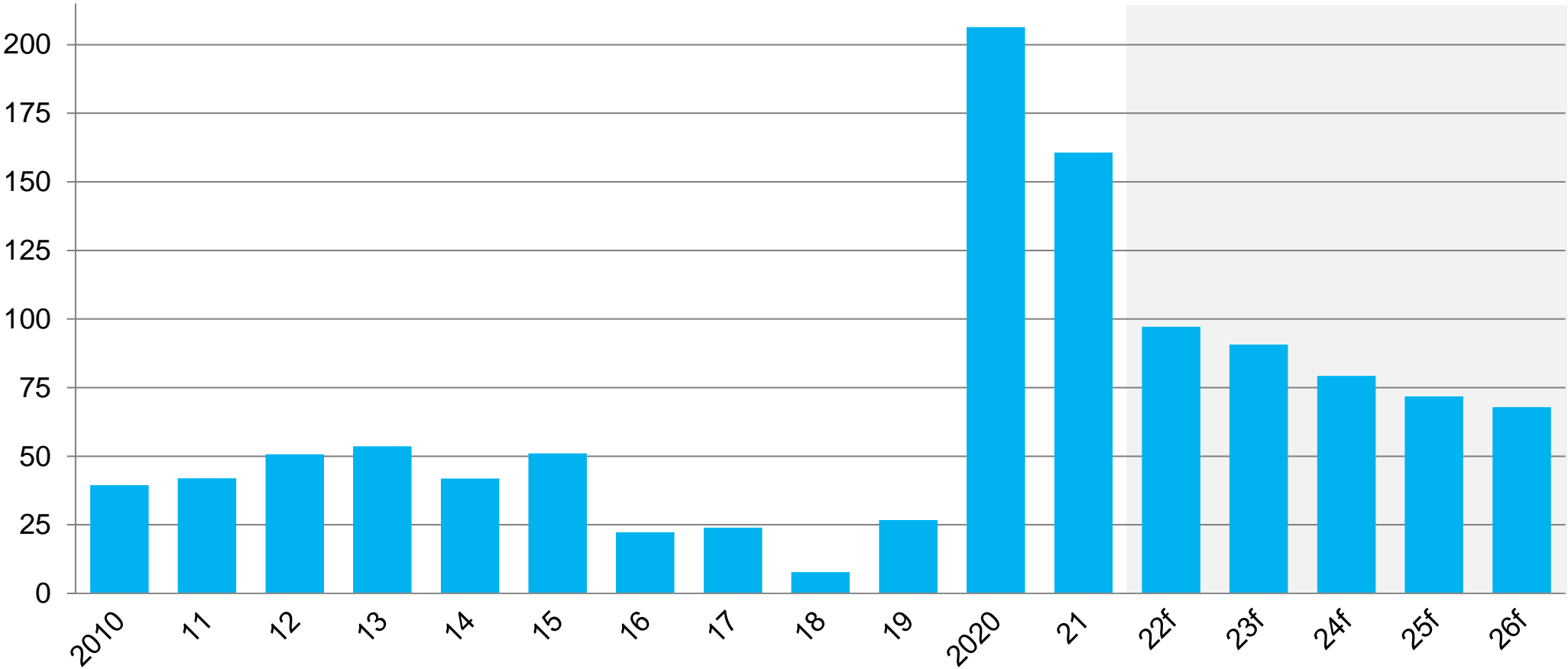
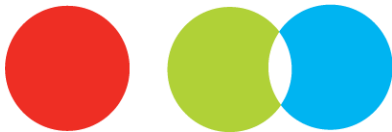
per cent change, per cent (savings rate)



Sources: Statistics Canada; The Conference Board of Canada.

Household Balance Sheets Swell

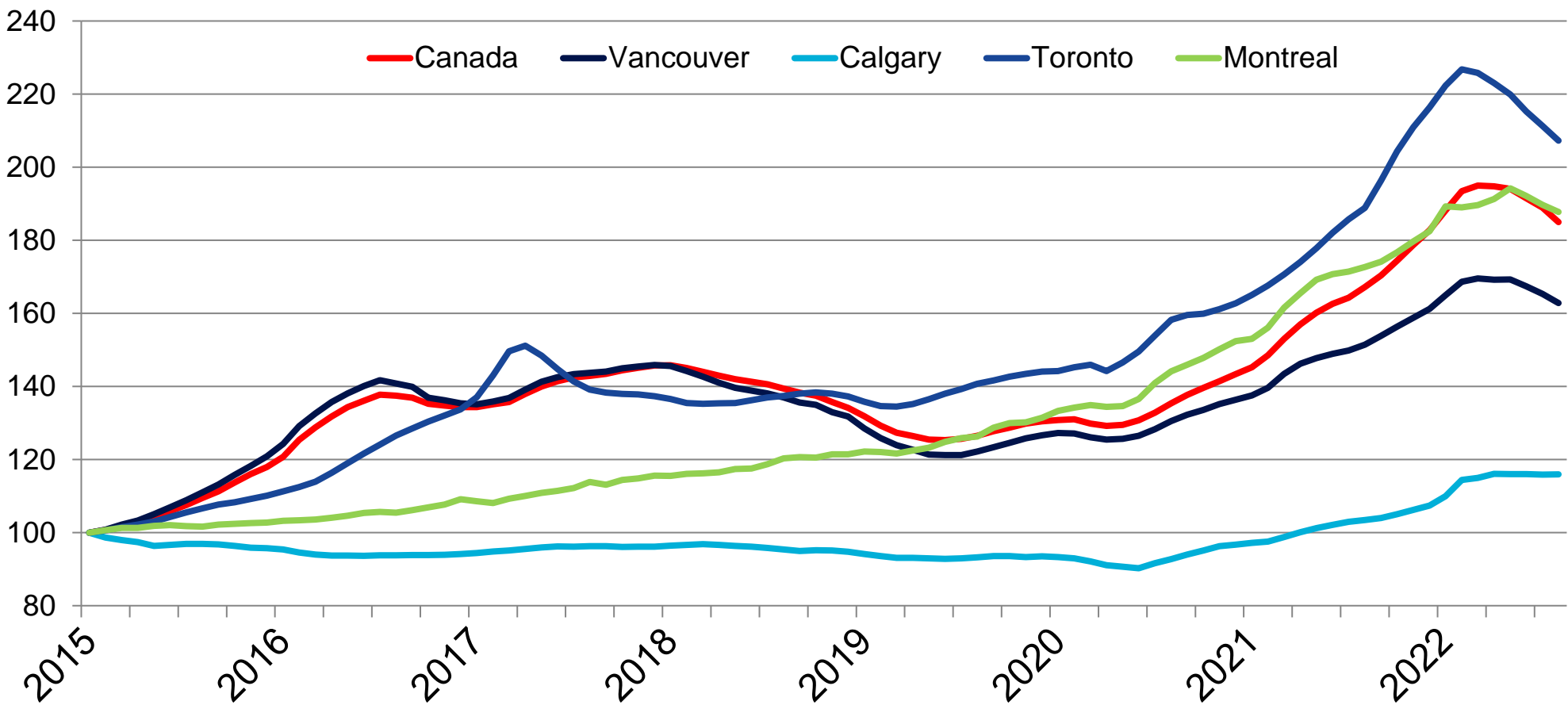
aggregate household net savings, \$ billions



Sources: Statistics Canada; The Conference Board of Canada.

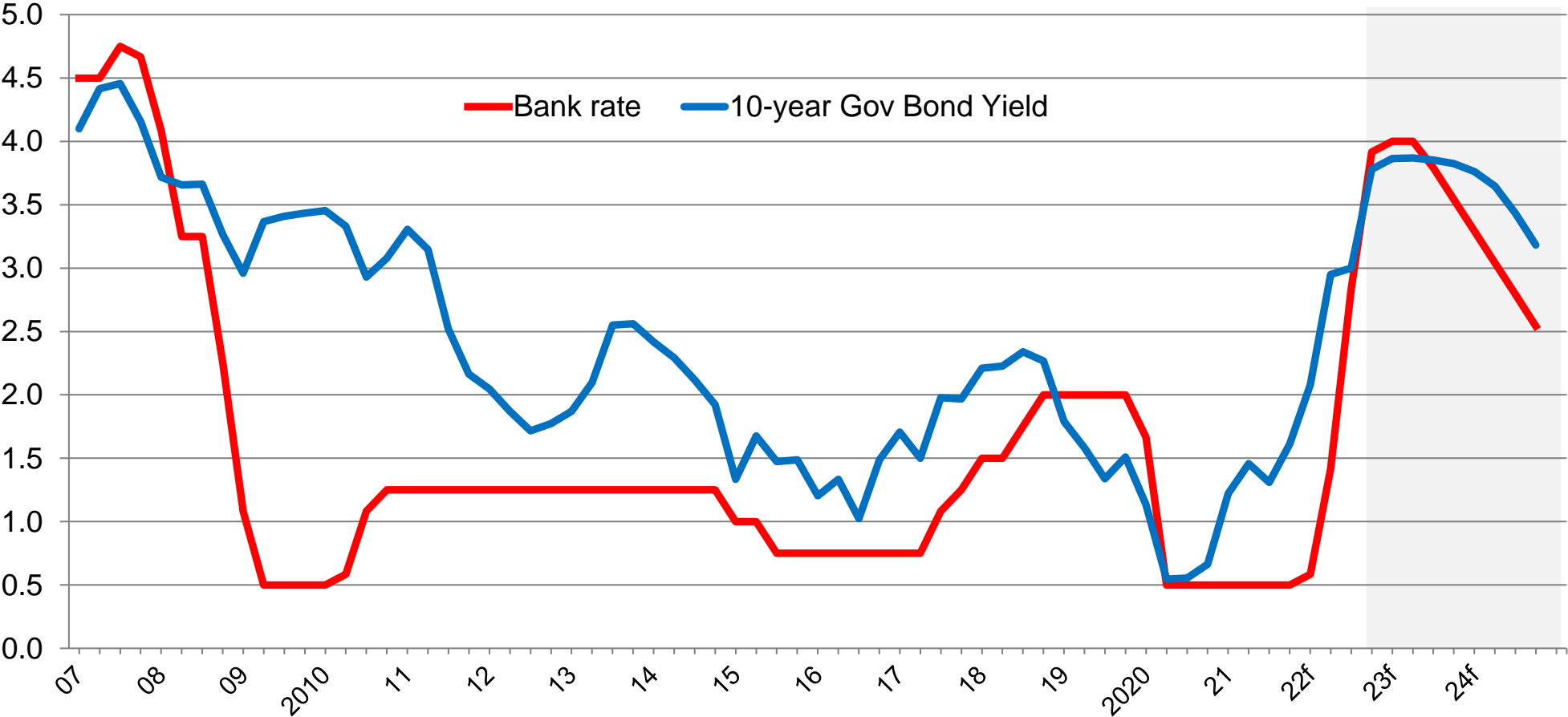
Home Price Boom Starting to Subside

MLS HPI; January 2015 =100; seasonally adjusted; monthly to August 2022



Source: Canadian Real Estate Association.

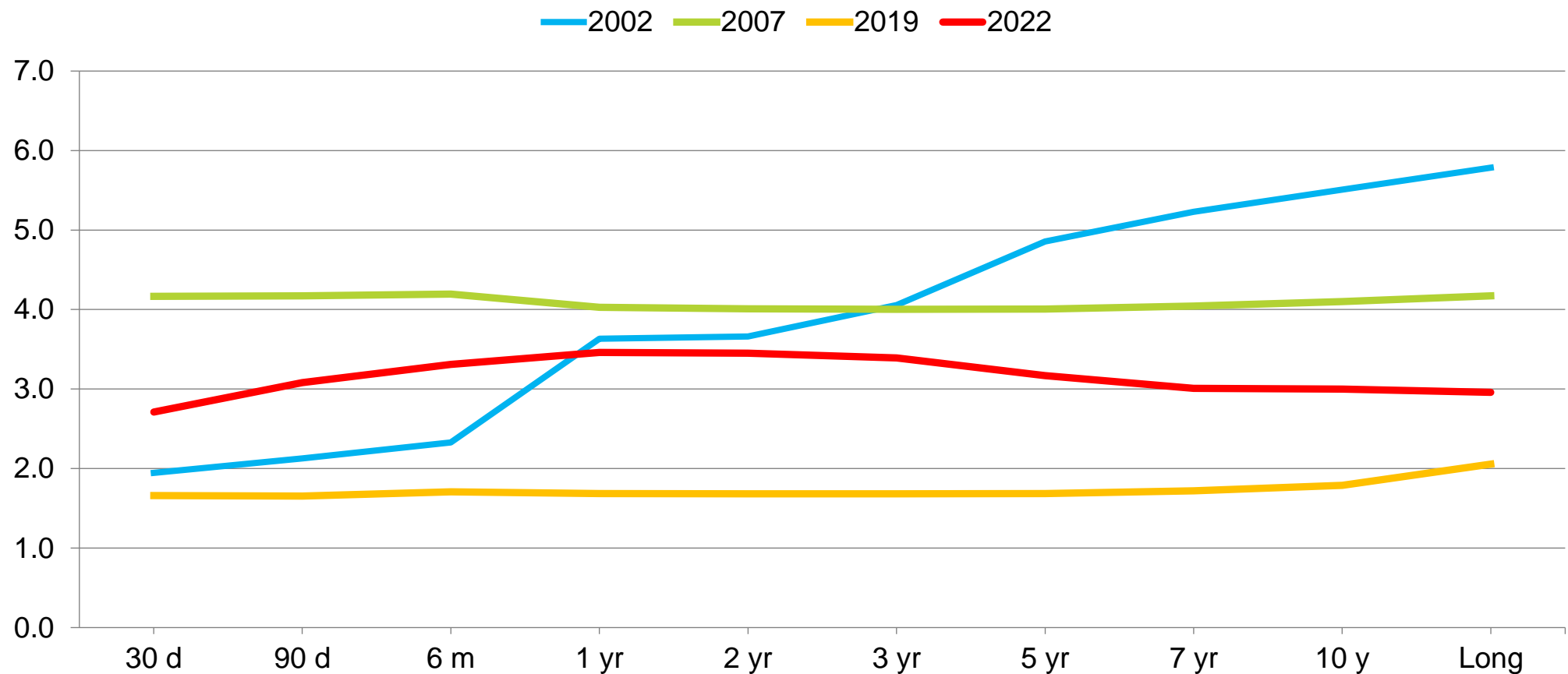
When Will the Bank of Canada Pause?



Sources: Statistics Canada; The Conference Board of Canada.

Canadian Yield Curve

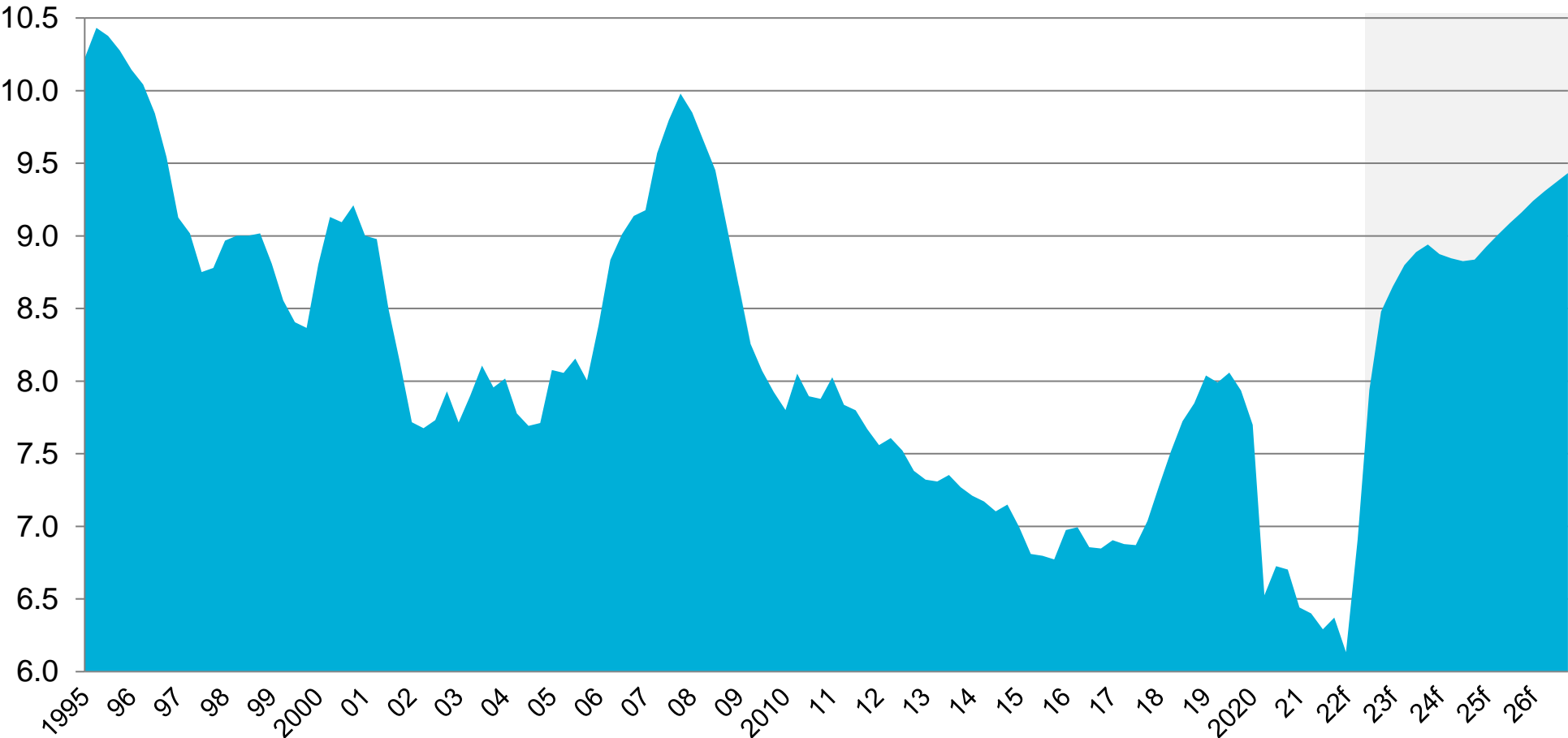
government bond and treasury bills, per cent



Source: Statistics Canada; The Conference Board of Canada.

Interest Payments will Take a Bite out of Income

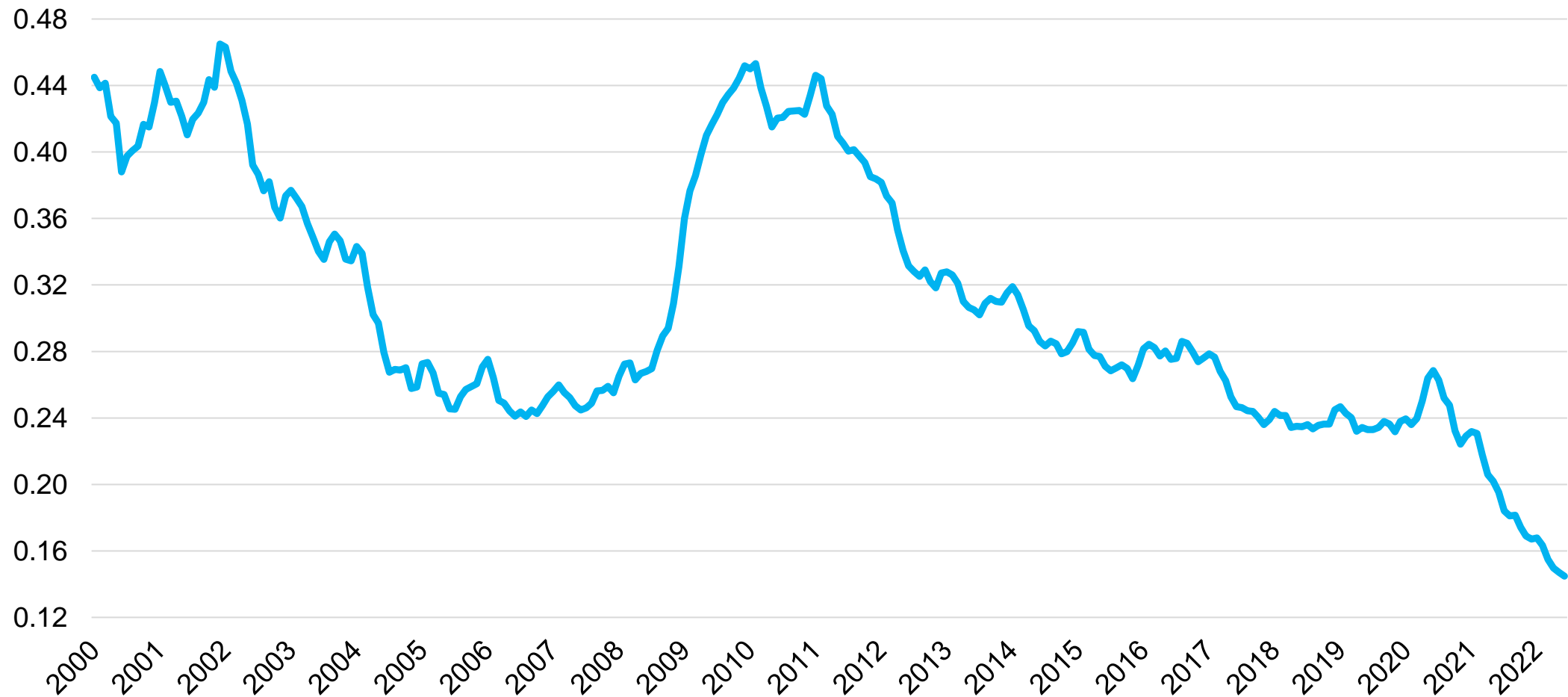
Mortgage and consumer debt service as a share of disposable income, per cent



Sources: Statistics Canada; The Conference Board of Canada.

Delinquency Rates Are at Rock Bottom

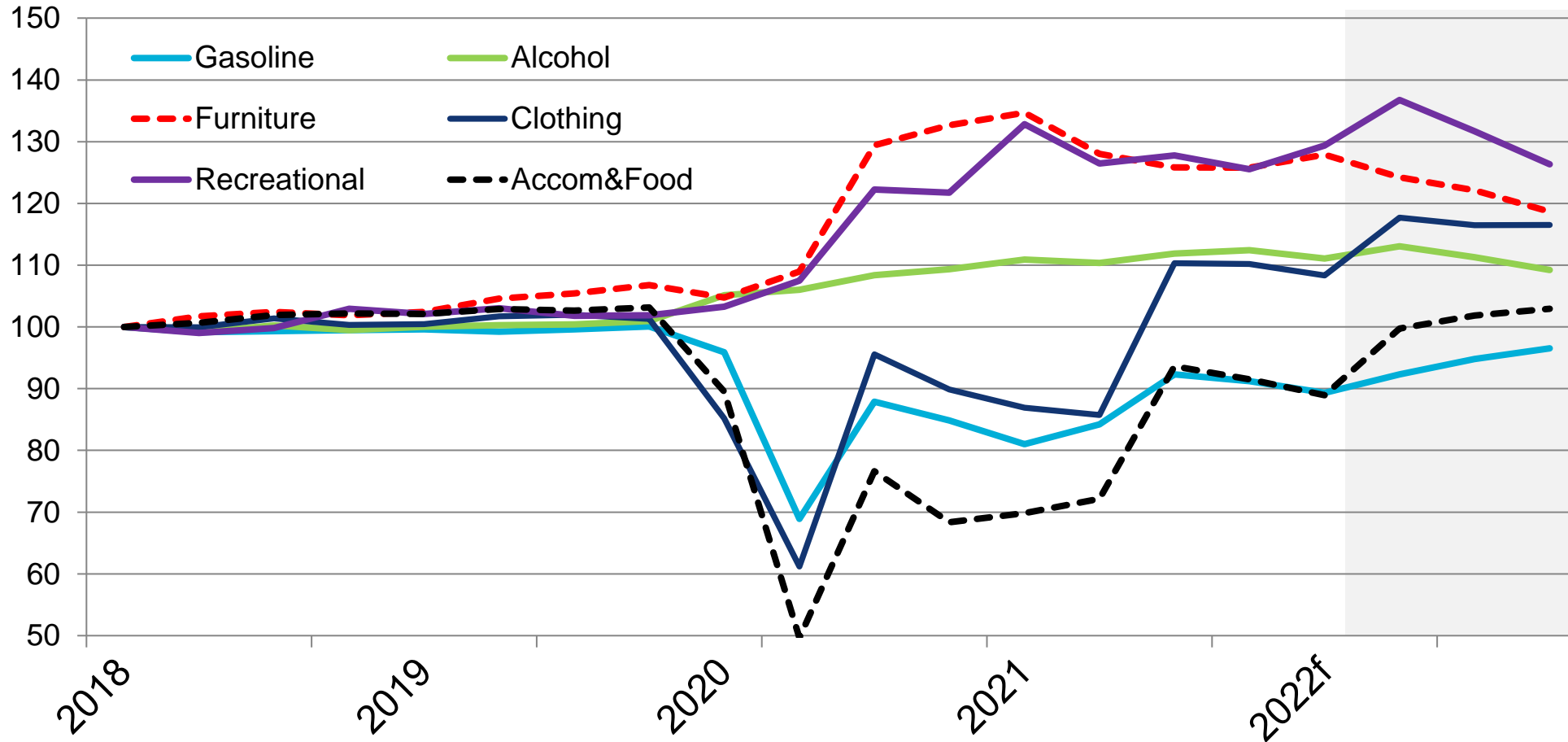
Mortgages in arrears, monthly to July 2022, per cent



Source: Canadian Bankers Association.

Boom-bust segments should converge

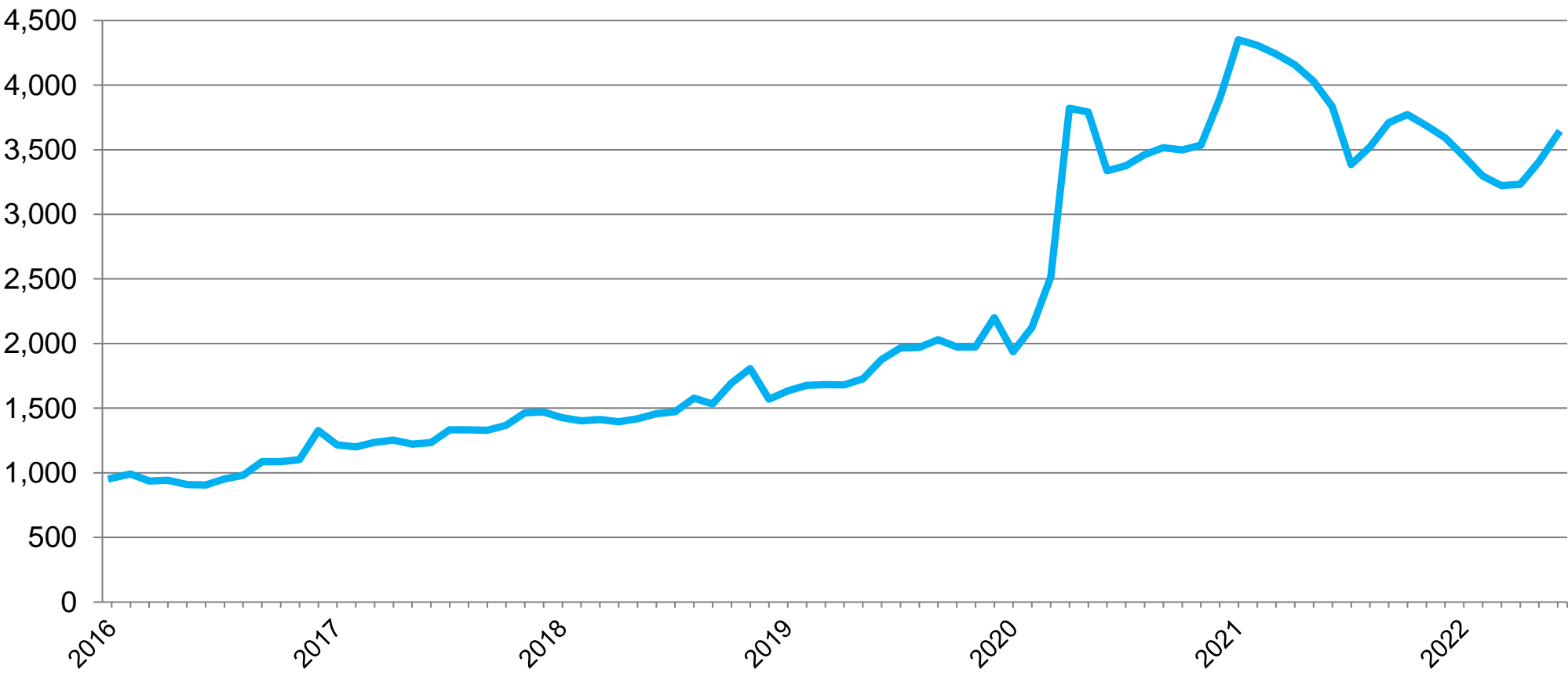
Real consumer spending by category, indexed to 2018Q1=100



Sources: Statistics Canada; The Conference Board of Canada.

Retail E-Commerce Sales in Canada

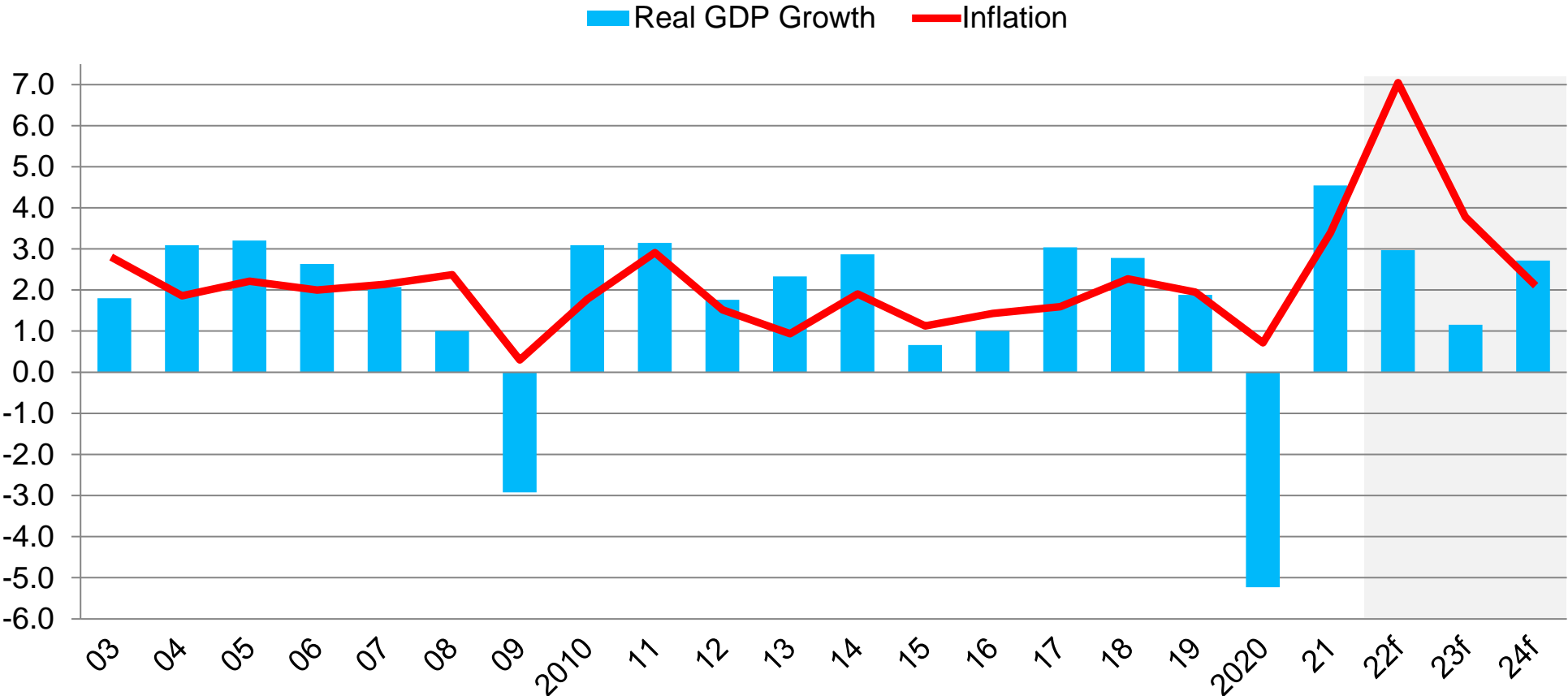
\$ millions, seasonally adjusted



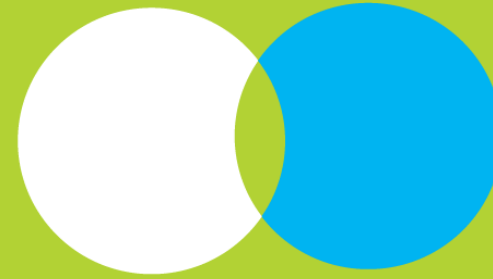
Source: Statistics Canada Table 20-10-0072-01.

Weaker Growth Should Help Settle Inflation

Canada real GDP and inflation, per cent change



Sources: Statistics Canada; The Conference Board of Canada.



Labour Markets

Stretched to the Brink

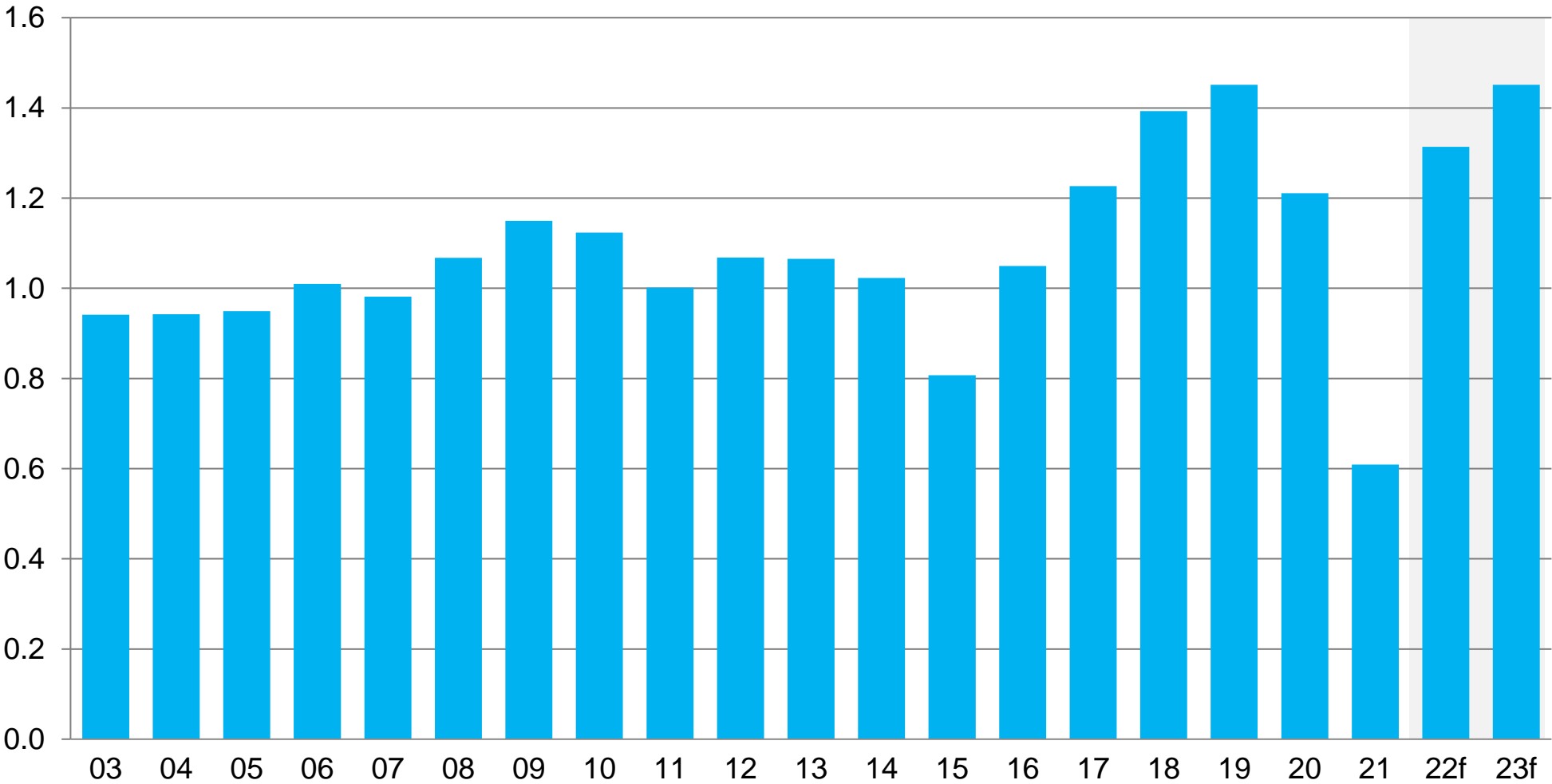
Workforce Implications



- Decline in immigration and non-permanent residents significantly slowed population and labour force growth
- Employment has rebounded, despite continued difficulties in some industries and occupations
- Labour markets have tightened markedly, even in comparison to 2019 (a boon year for labour markets)
- Retirements are about to explode and will keep labour markets tight even as immigration numbers rebound

COVID-19 put a Halt to Immigration

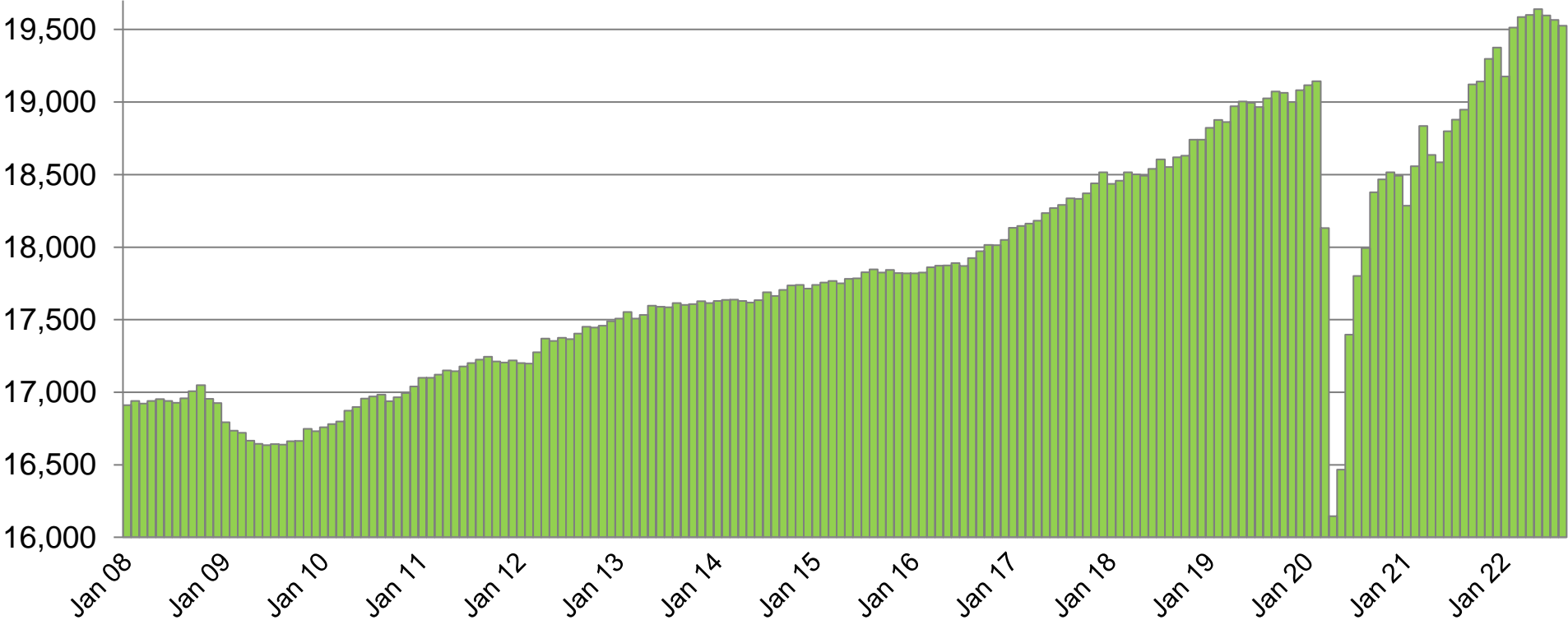
annual population growth



Sources: Statistics Canada; The Conference Board of Canada.

Employment Recovered

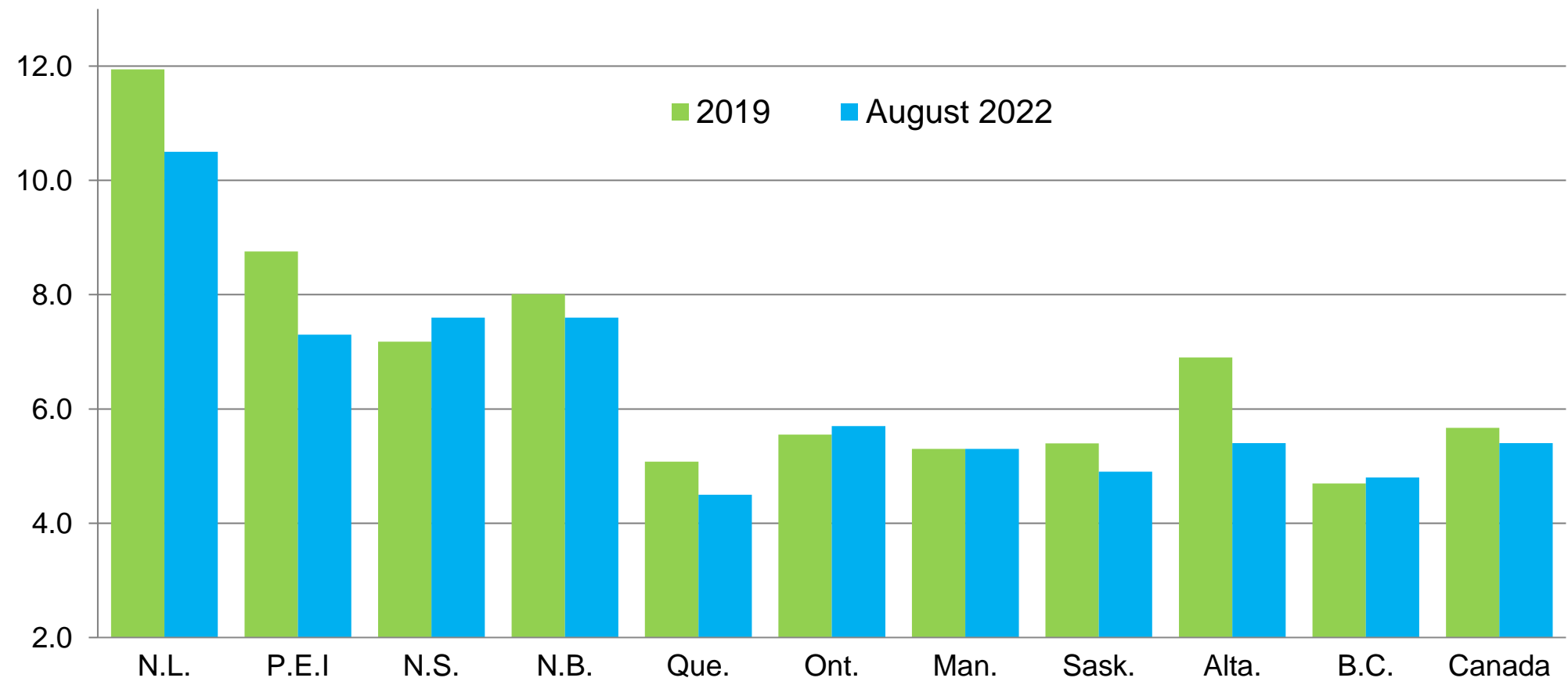
Canada's employed, thousands



Source: Statistics Canada Table: 14-10-0287-01.

Labour Markets as Tight as Ever Across Canada

Unemployment rates by province, per cent



Source: Statistics Canada Table: 14-10-0287-01.

British Columbia Job Vacancies On the Rise

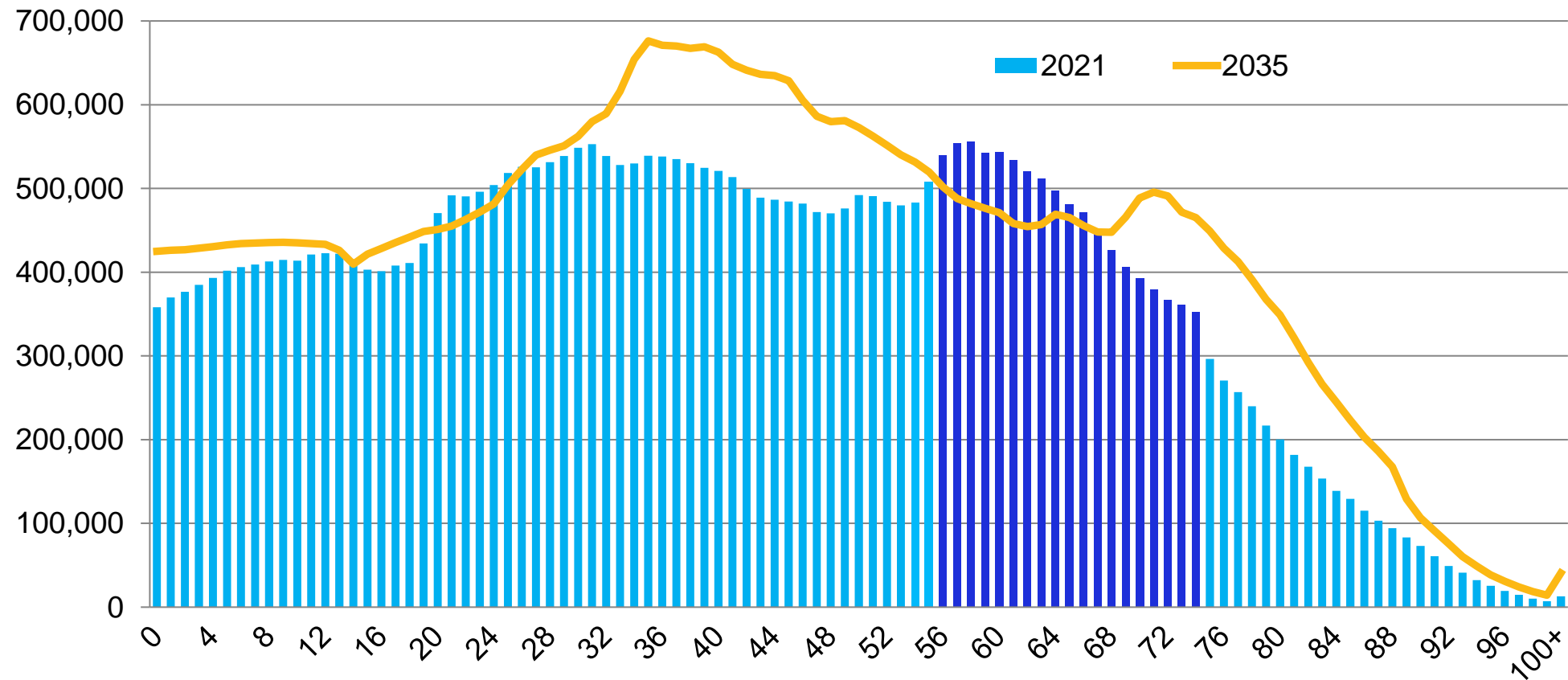
Selected job vacancies, number of vacancies and per cent change from 2019 to 2022Q2



	Average 2019	2022 Q2	per cent change	Offered wage increase
Total, all occupations	101,615	169,280	66.6	20.1
Business, finance and administration occupations	9,626	15,660	62.7	14.1
Health occupations	5,366	10,260	91.2	12.0
Occupations in education, law and social, community and government services	6,150	10,975	78.5	8.3
Trades, natural resources and manufacturing	29,413	47,195	60.5	16.4
Sales and service occupations	36,425	60,200	65.3	18.2

Sources: Statistics Canada Table 14-10-0356-01; The Conference Board of Canada.

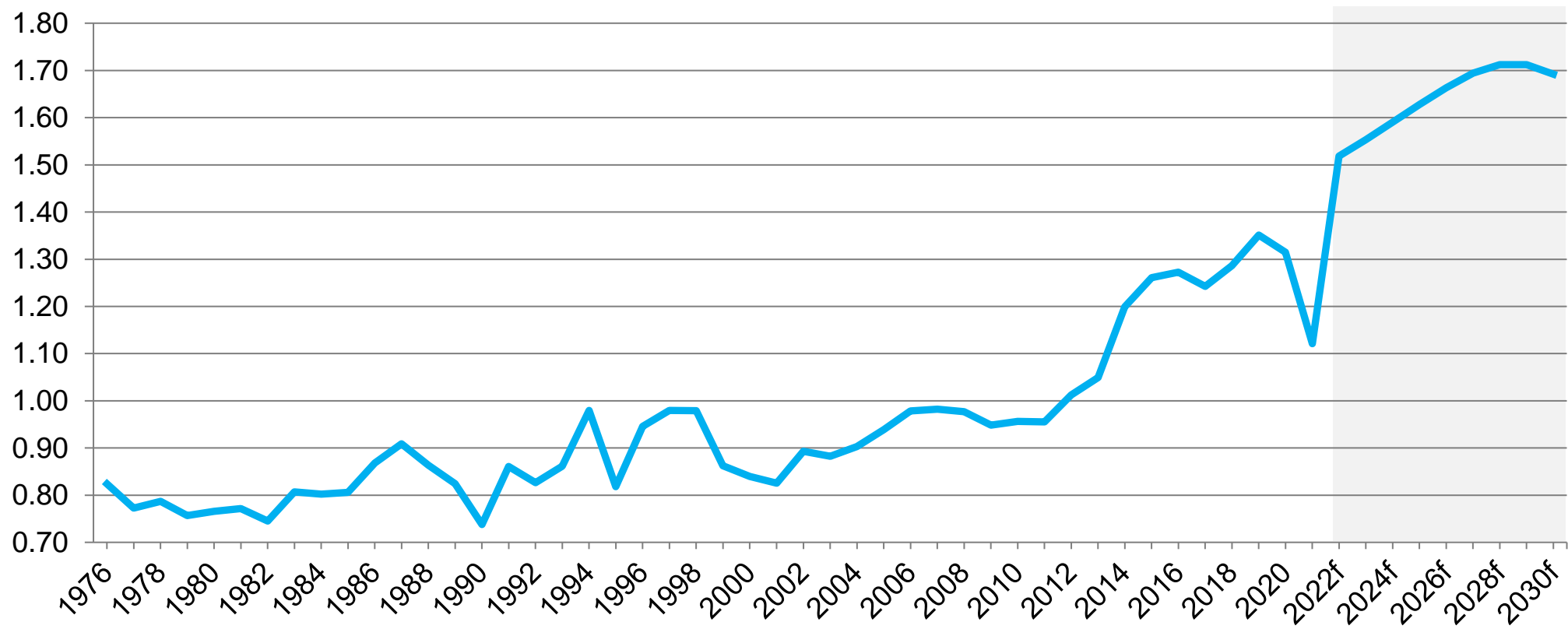
Population distribution by age, 2021 and 2035



Sources: Statistics Canada; The Conference Board of Canada.

2022—The Year of the Retiree

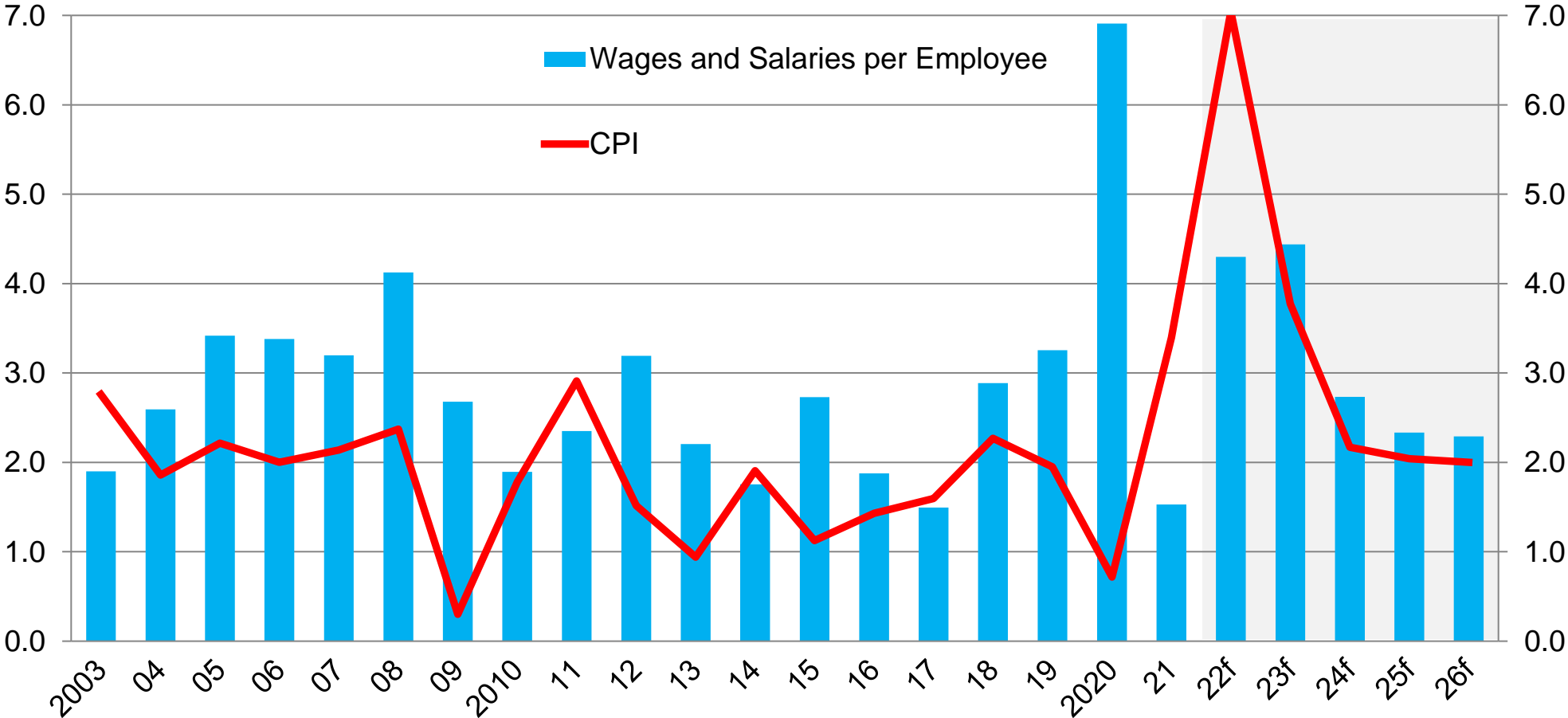
retirements as a share of labour force, per cent



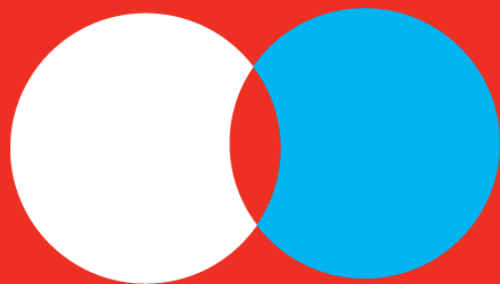
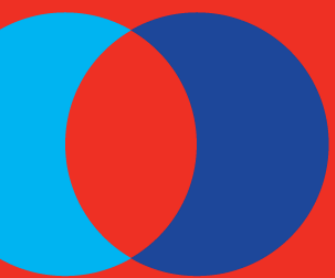
Sources: Statistics Canada; The Conference Board of Canada.

Wages to Align with Inflation

per cent change in consumer prices and wages



Sources: Statistics Canada; The Conference Board of Canada.

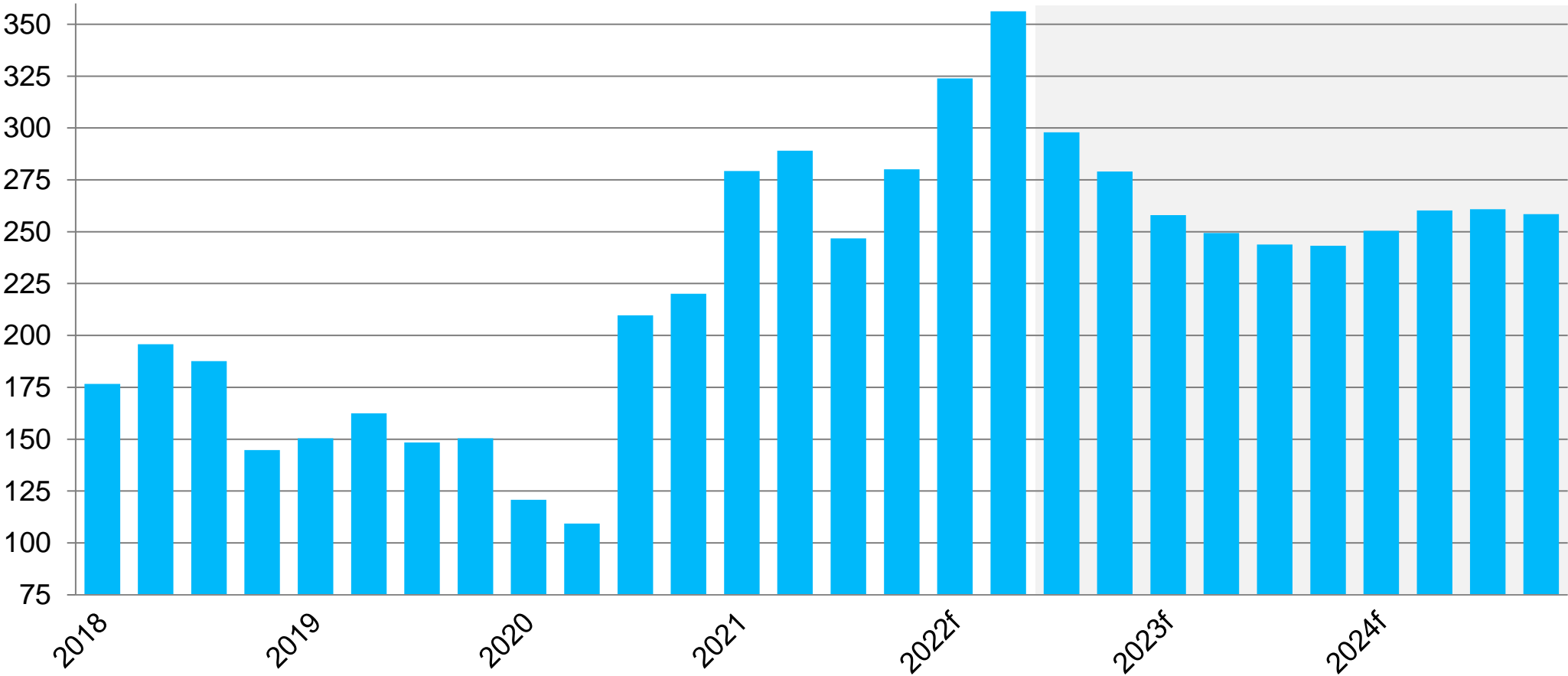


Private Investment

Failing to keep pace

Profits Hit a Record but will Investment Follow?

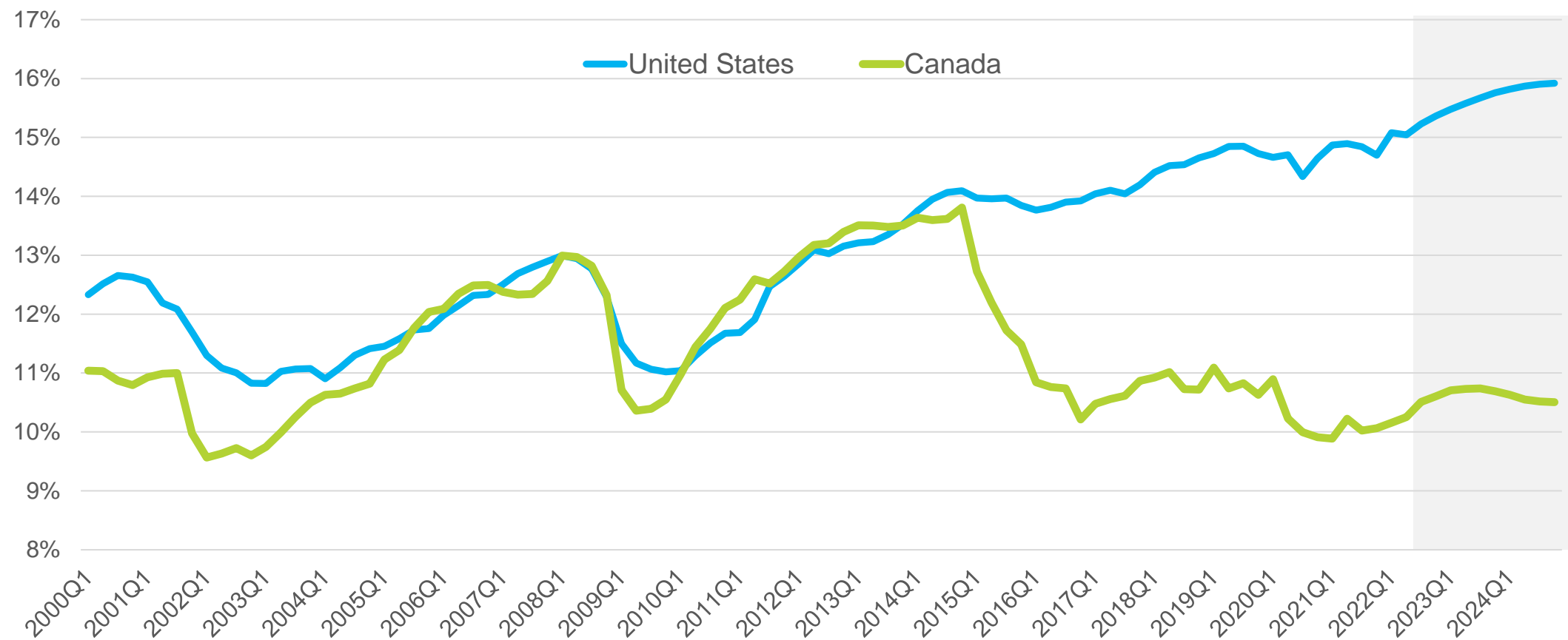
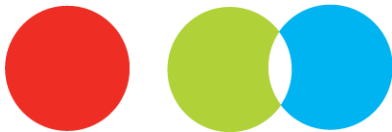
corporate profits in Canada before taxes, \$ billions



Sources: Statistics Canada; The Conference Board of Canada.

Canada's Investment in the Doldrums

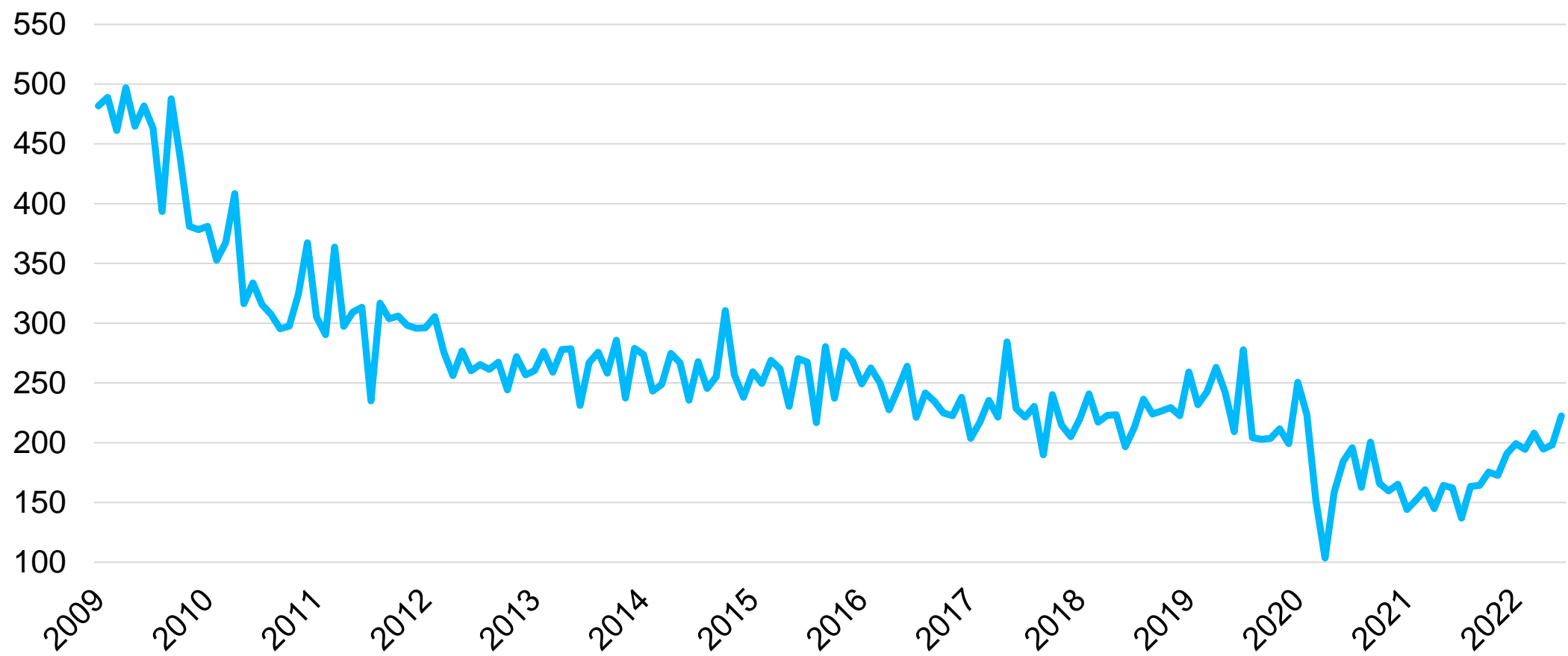
real business investment as a share of GDP; per cent



Sources: Statistics Canada; Bureau of Economic Analysis.

Business Bankruptcies Trending Up

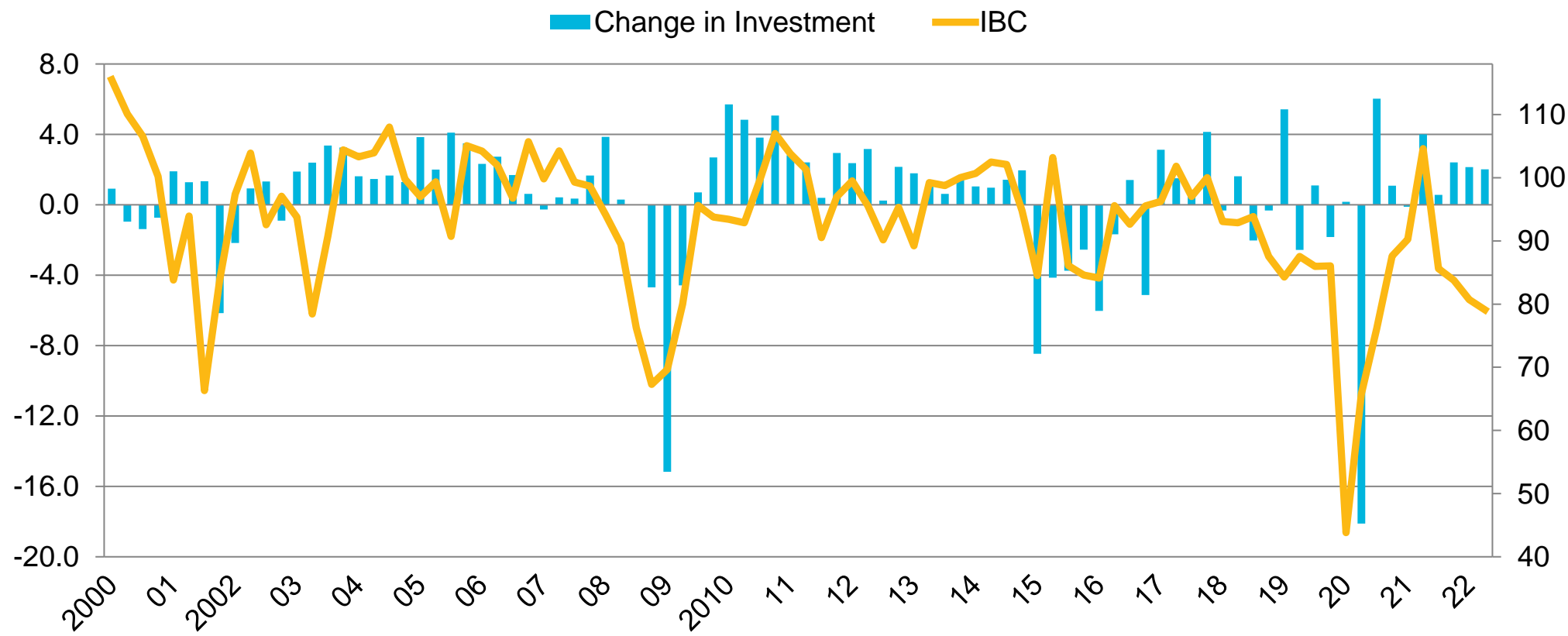
Business bankruptcies in Canada, monthly to July 2022



Source: Office of the Superintendent of Financial Institutions (OSFI).

Index of Business Confidence

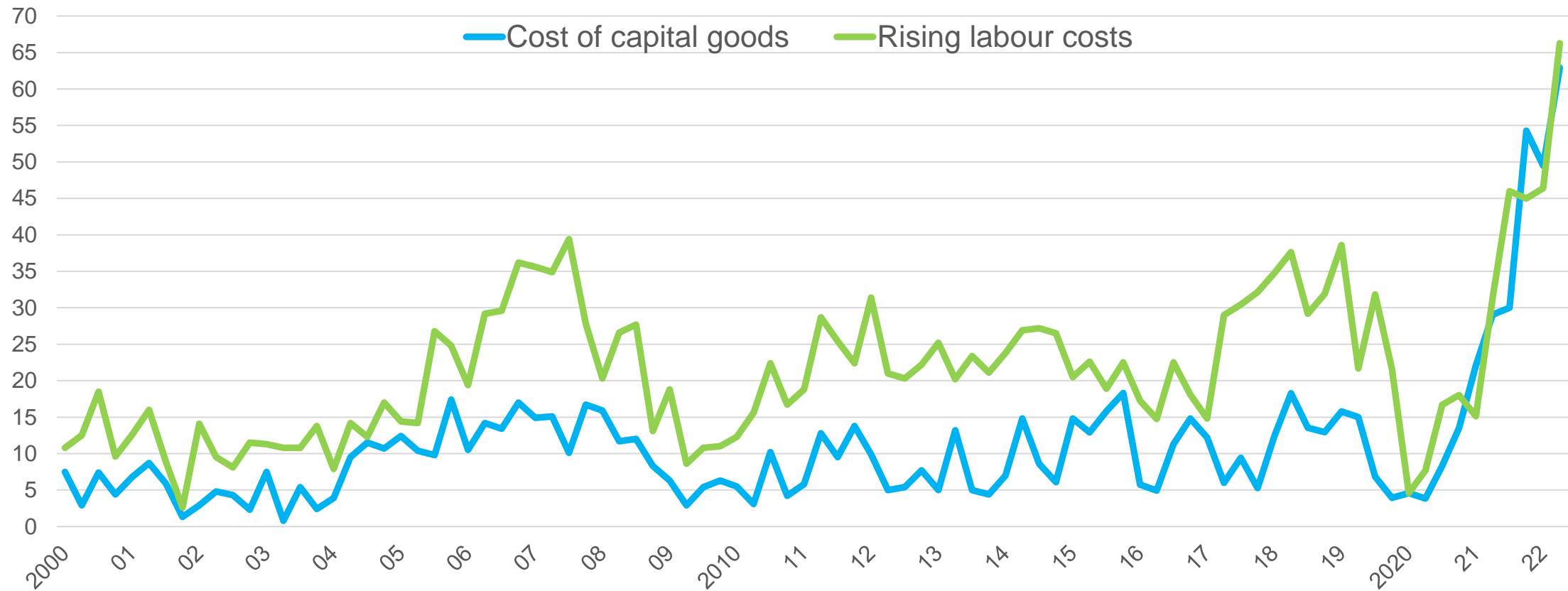
Private plant & equipment investment (quarterly percentage change, left scale); Index (2002=100, right scale)



Sources: Statistics Canada; The Conference Board of Canada.

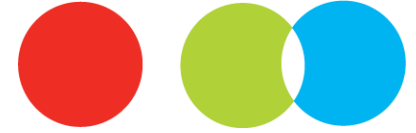
Cost of Labour and Capital Holding Back Investment

factors, if any, currently adversely affecting the level of your planned expenditures in Canada;
per cent of survey responses



Source: The Conference Board of Canada.

The Bottom Line...



- Globally, recession risks are palpable, but our call is that consumer spending slows in Canada and the United States, helping to dampen inflation and allow for a soft landing
- A tight labour market coupled with record job vacancies should mitigate the effect on labour markets in many developed economies
- Canada is in better shape than most. Household and business savings should buffer impacts.
- Still, as government support dries up, business failures will rise, especially for many small businesses that service sectors that will be slow to recover.

Are There Silver Linings?



- Despite weak investment Canada's productivity performance has improved in recent years
- Knowledge based workforce, employment in professional services is driving growth; employment for those with university education has increased strongly through the pandemic
- The Pandemic has accelerated tech adoption in many sectors, this provides an upside risk to Canada's longer-term prospects
- Adoption of technology, telehealth could help governments deliver public services more effectively

The Conference Board of Canada

conferenceboard.ca



Q&A

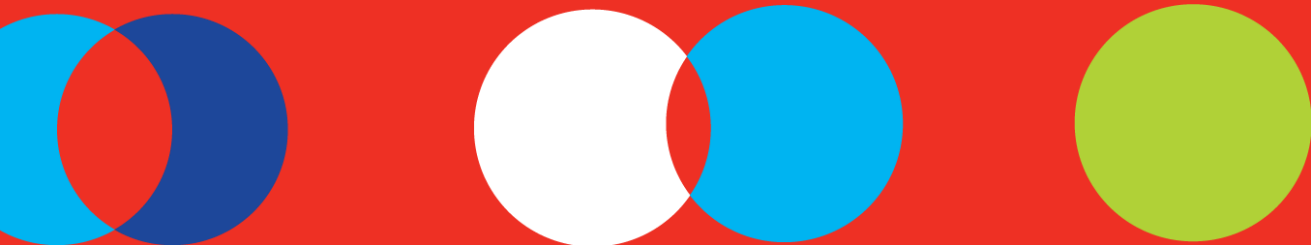
Travel and Tourism Outlook

Prepared for Destination Vancouver, October 4, 2022

Kiefer Van Mulligen

Economist, Economic Forecasting





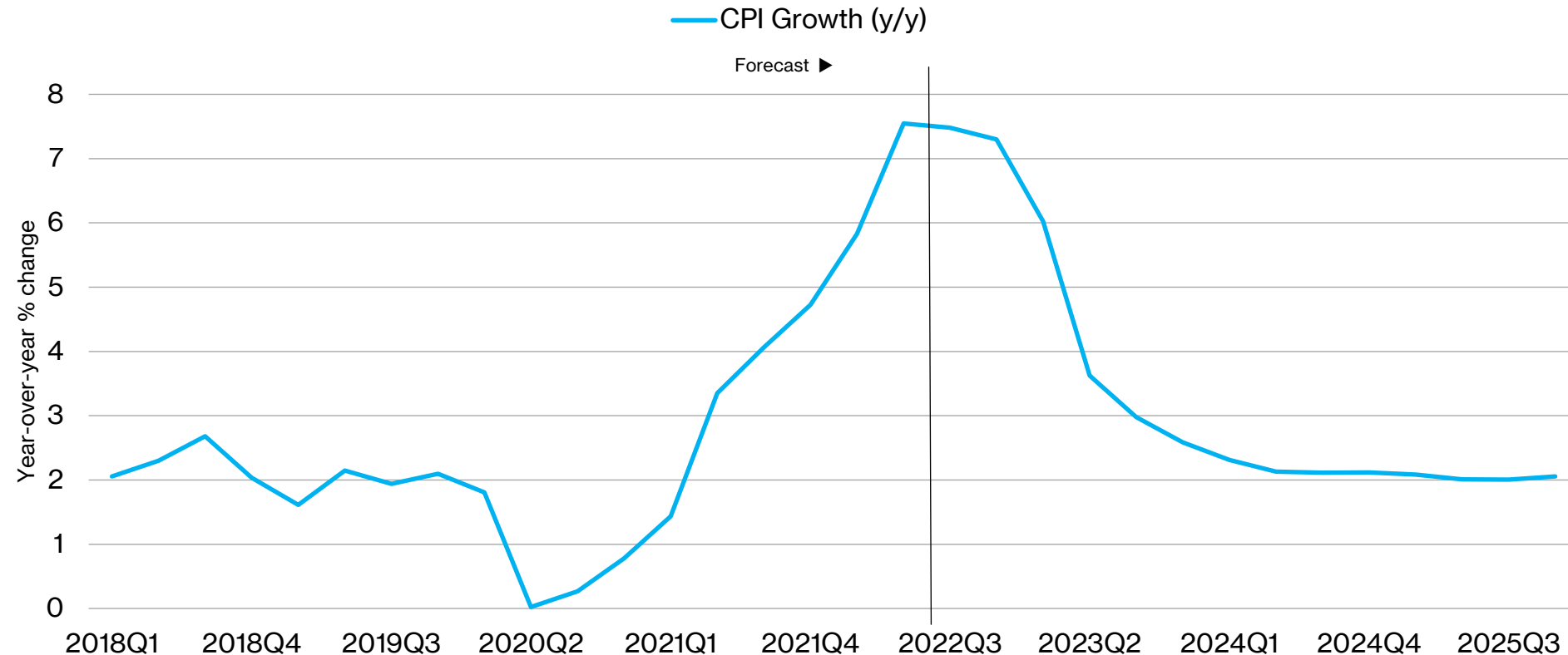
Setting the Stage

Macroeconomic Trends and Tourism in 2022

conferenceboard.ca

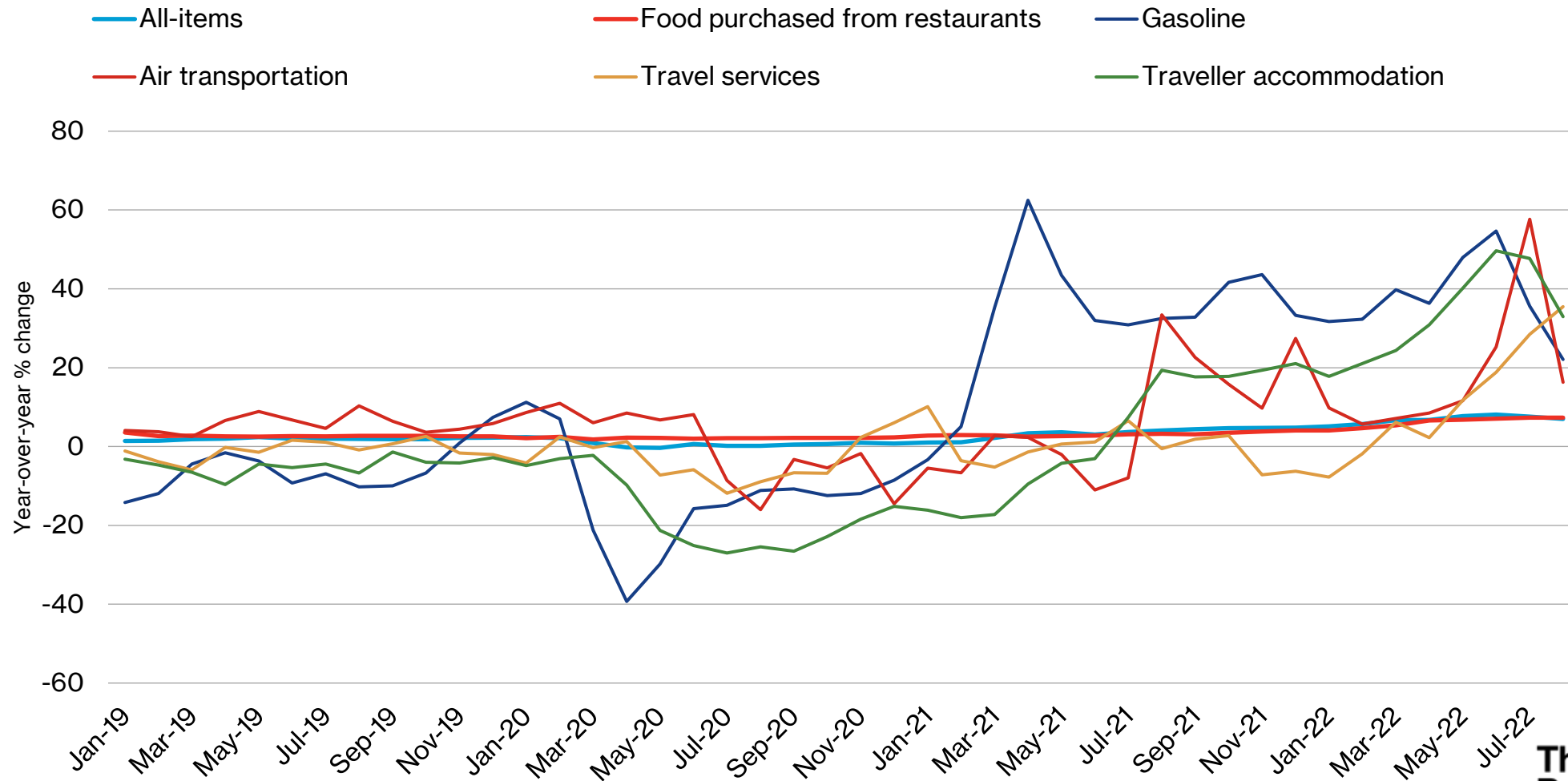
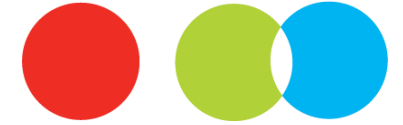
The Conference
Board of Canada

Inflation in Canada remains elevated, but will gradually ease into 2024

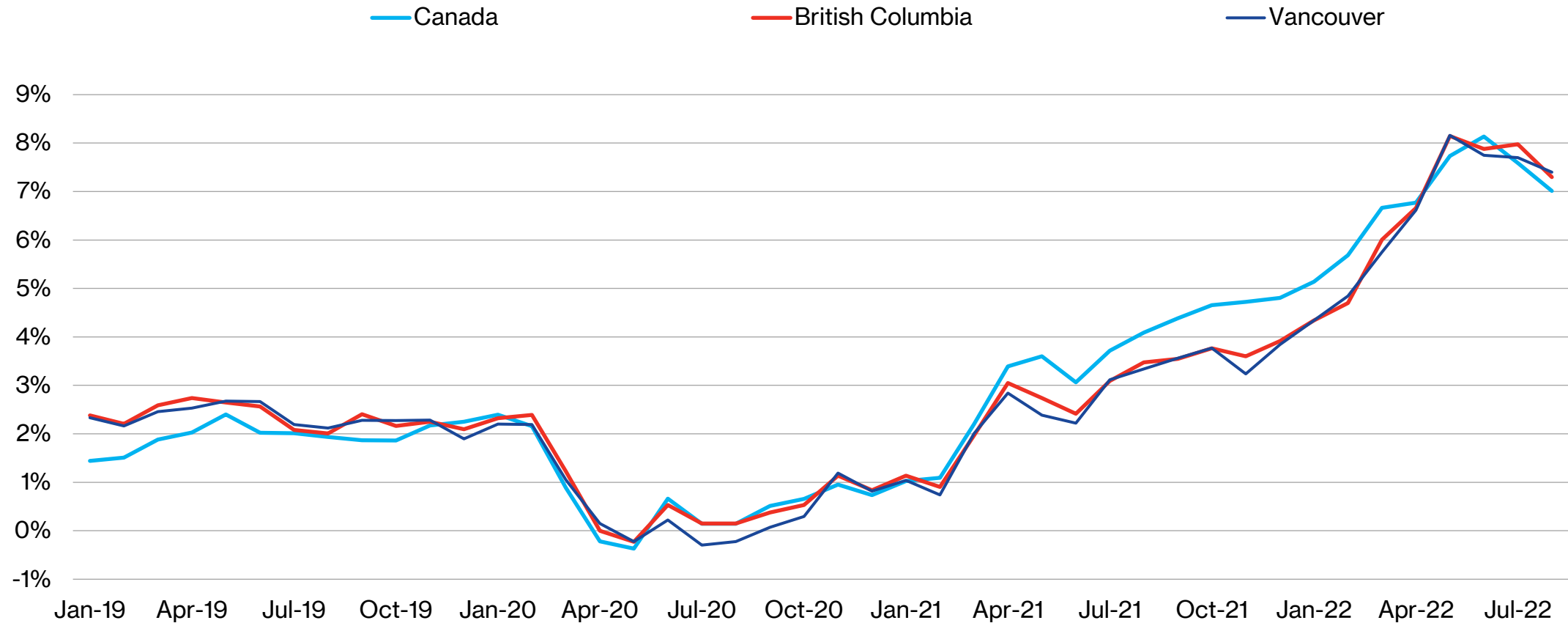


Source: The Conference Board of Canada; Statistics Canada

Travel prices remain elevated, some accelerating



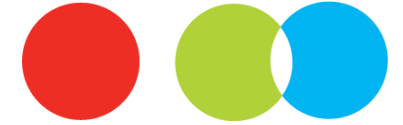
Price growth in B.C. and Vancouver overtaking growth in Canada



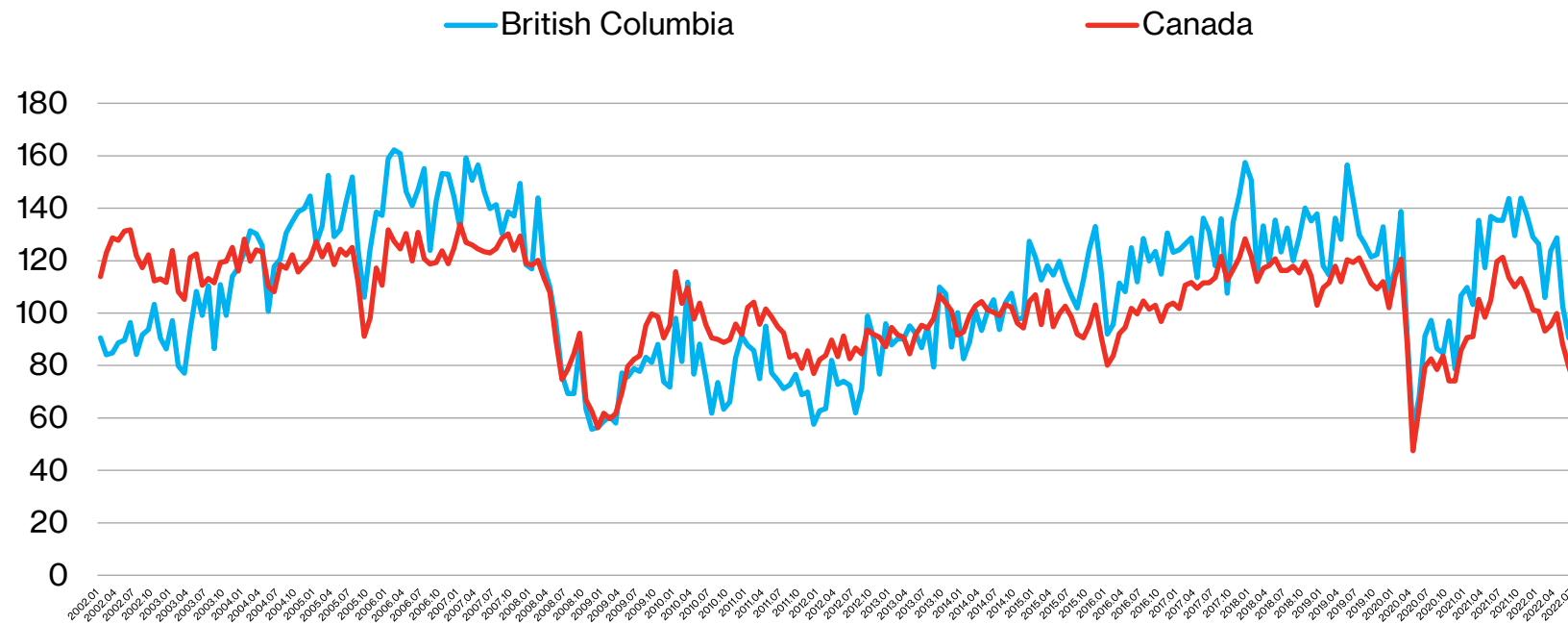
Source: Statistics Canada

**The Conference
Board of Canada**

Consumer confidence remains low throughout Canada

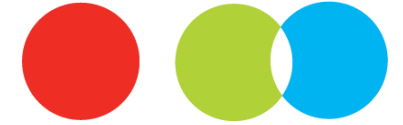


- Consumer confidence is often interpreted as a leading indicator of consumer spending.
- However, pent-up demand for spending on services has boosted consumption growth even as confidence remains low.



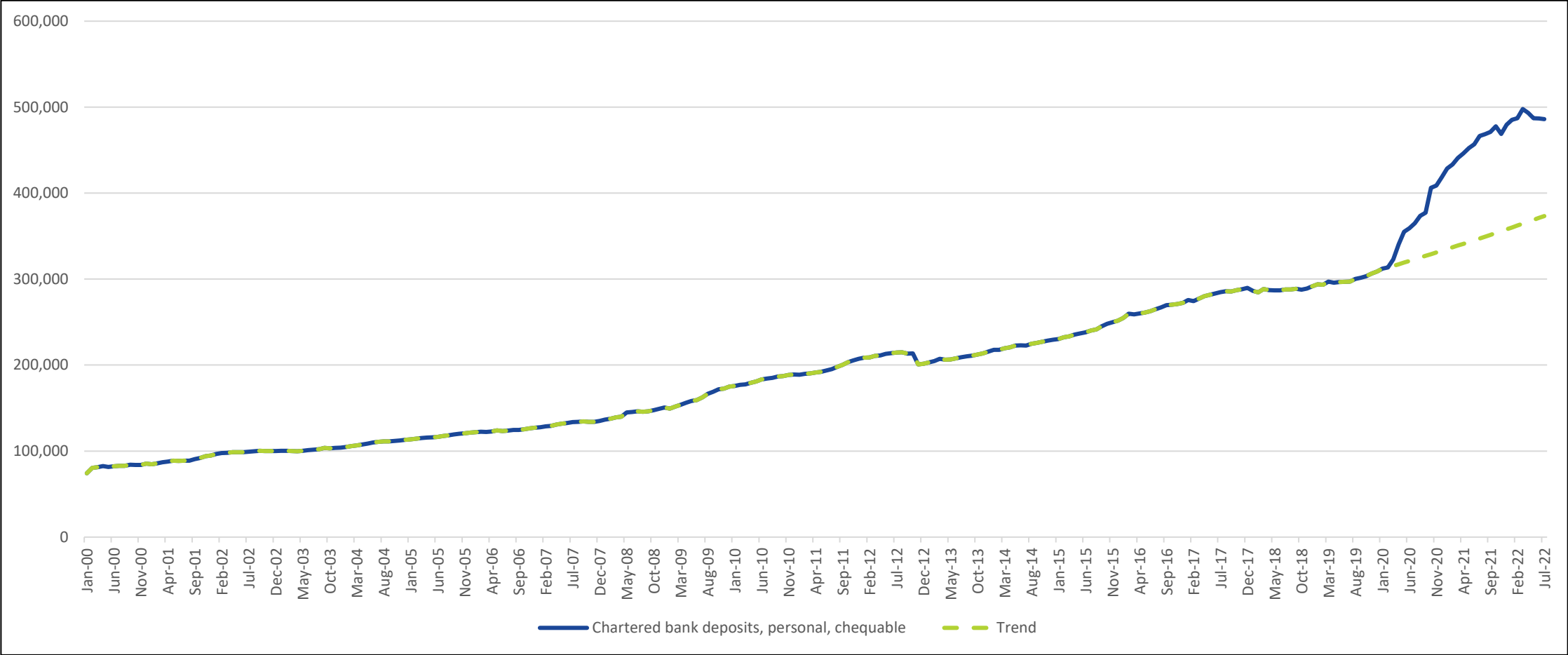
Source: The Conference Board of Canada

Travel Intentions Survey – July/August 2022



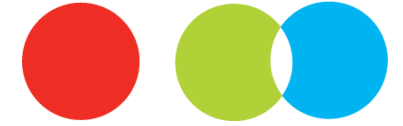
- **Domestic travel intentions fell** between April 2022 and July/August 2022 (overnight trips already taken or until end of October). **Outbound intentions stable.**
- **Financial concerns predominate** and further displaced factors related to the COVID-19 pandemic as primary reason for not taking a trip:
 - “Travel is too expensive” (17.7 per cent)
 - “I can’t afford to travel right now” (16.1 per cent)
- Travel intentions **fell across all income brackets:**
 - Decline magnitudes similar for most brackets, though mildest in top (\$125K+) bracket.
- Bulk of domestic summer season winding down faster than in 2019. (Pent-up demand spree over?)

Excess consumer savings tepidly starting to decline

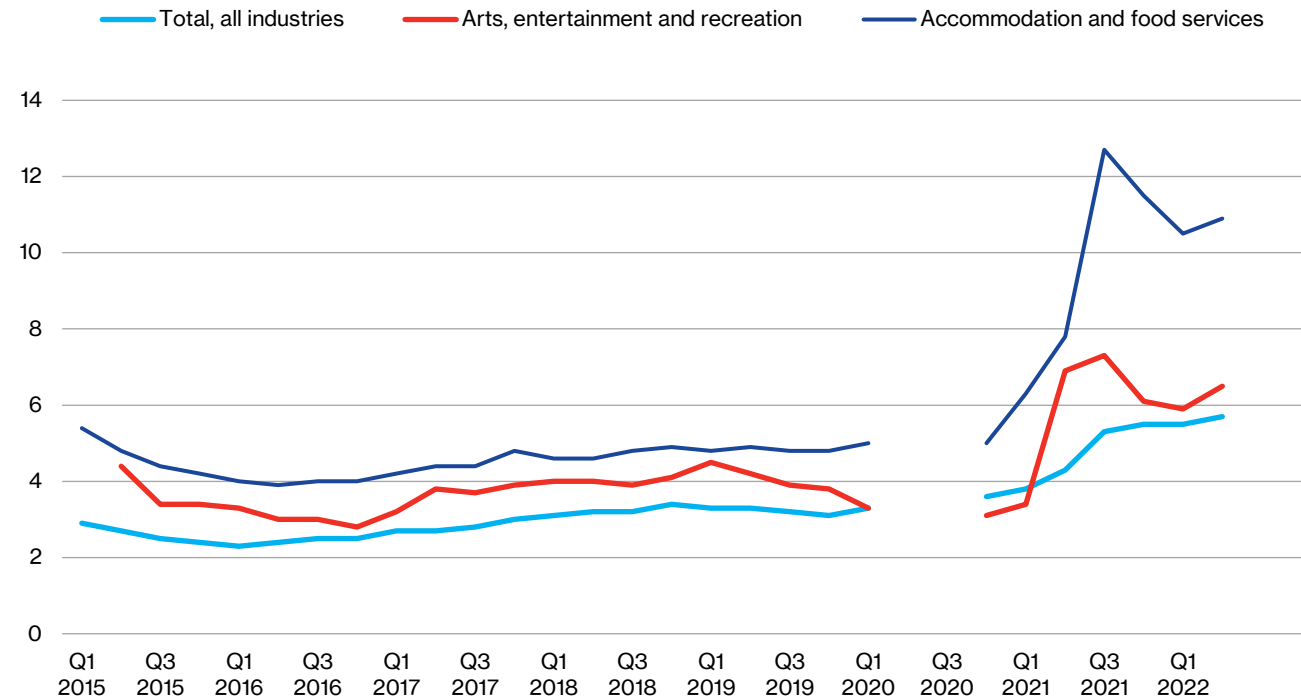


Source: The Conference Board of Canada; Statistics Canada

Job vacancies remain elevated across the Canadian economy.

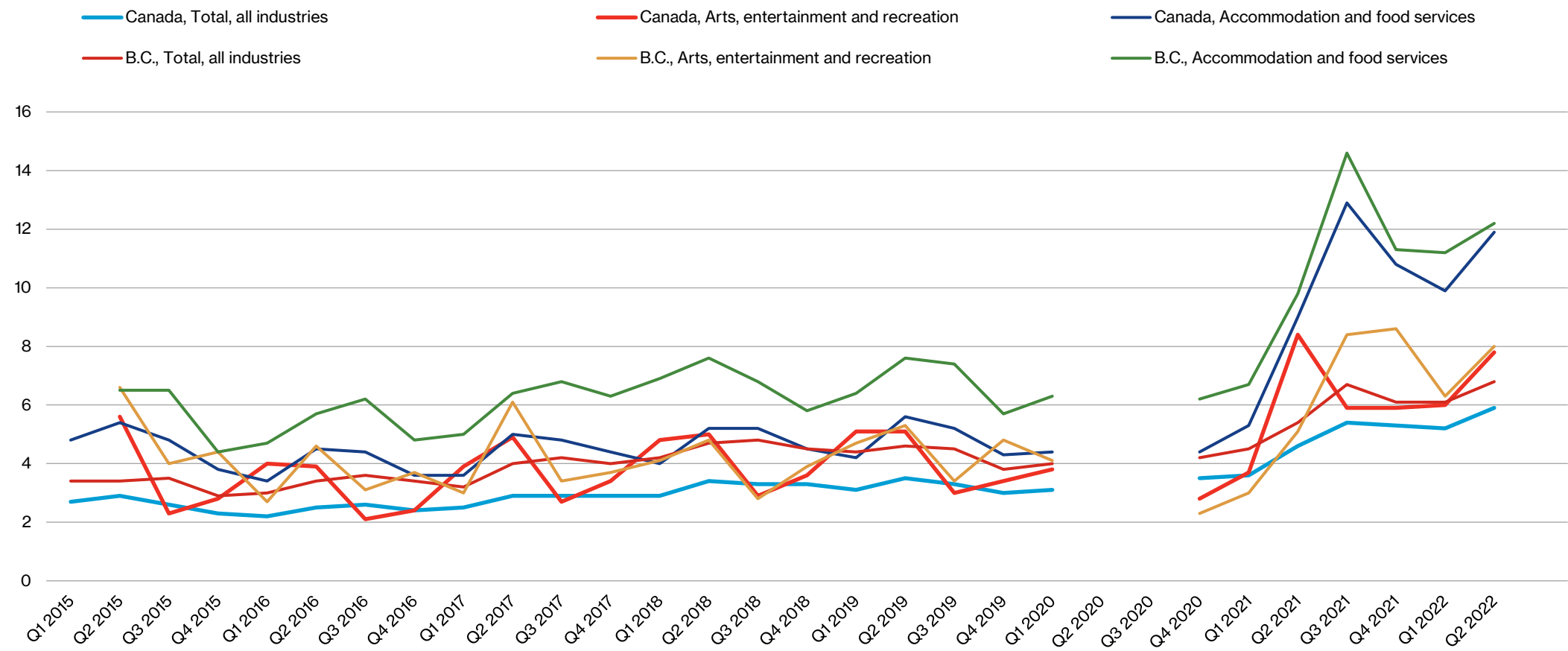


- Accommodation and food services faring worst of all.



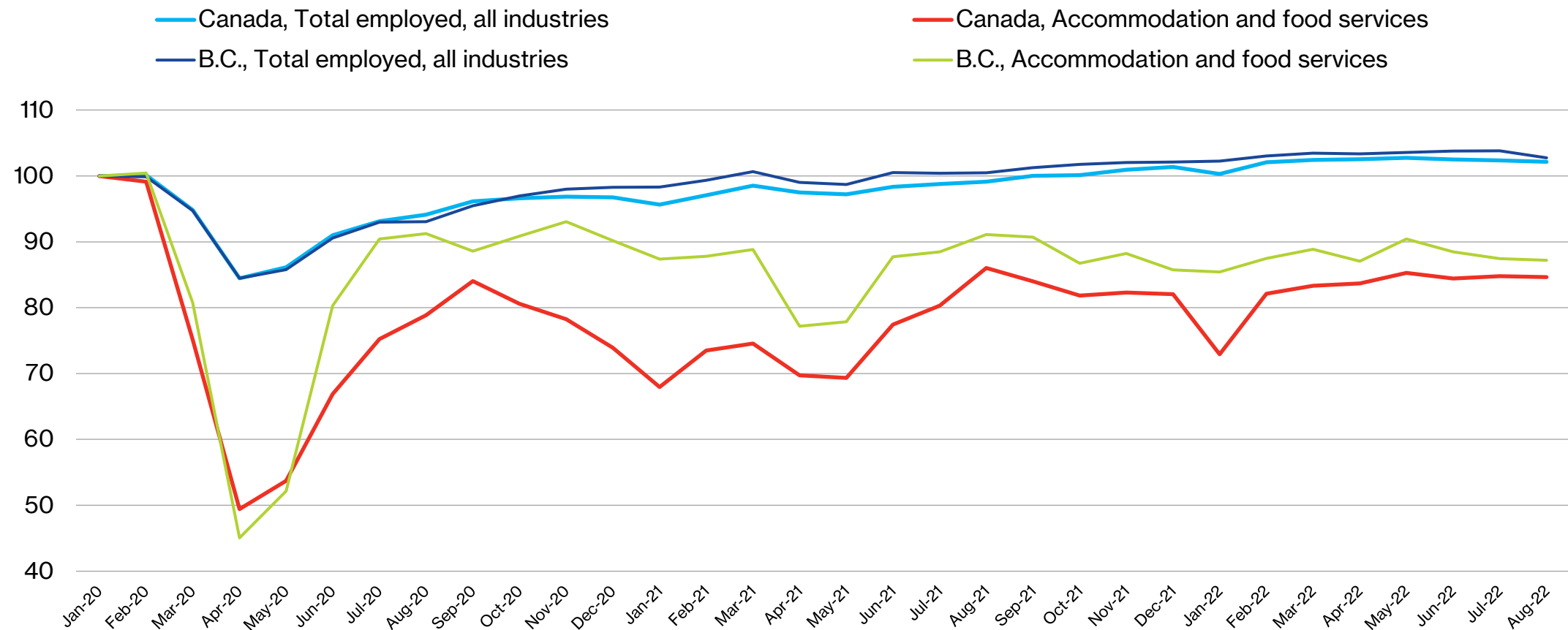
Source: Statistics Canada

Vacancies in B.C. are higher in most industries



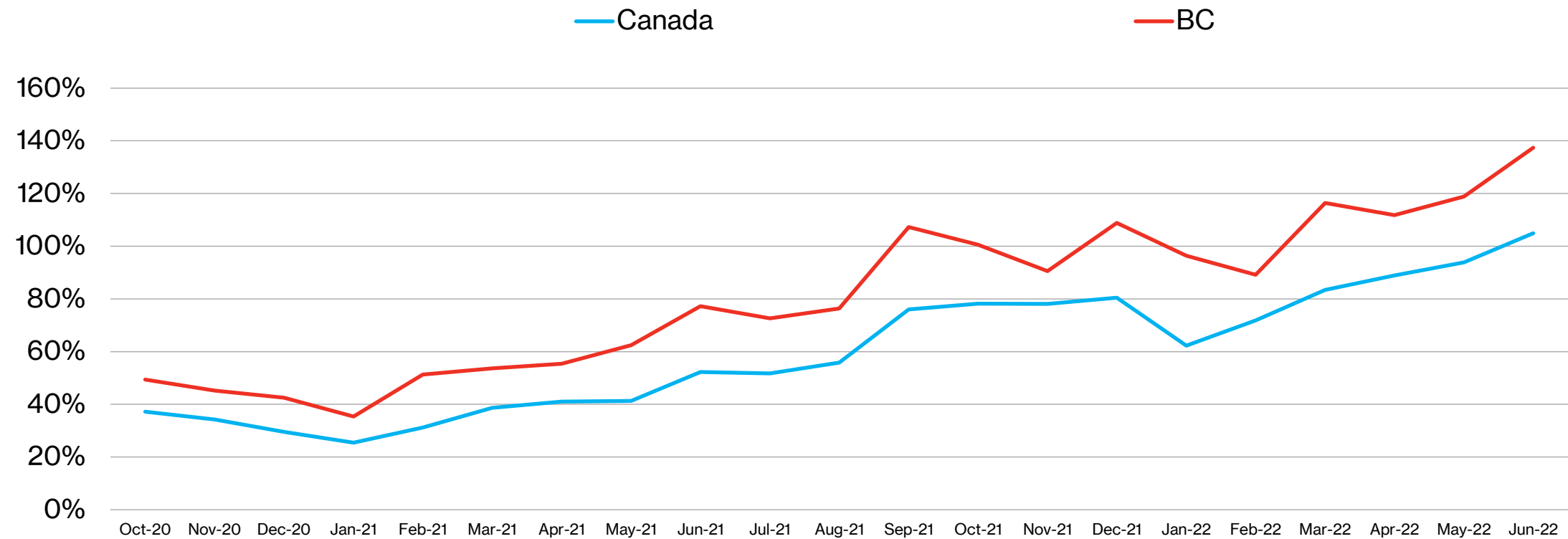
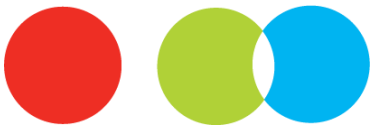
Source: Statistics Canada

Employment recovery in B.C. was swiftest of all provinces



Source: The Conference Board of Canada; Statistics Canada

More job vacancies than unemployed in B.C.

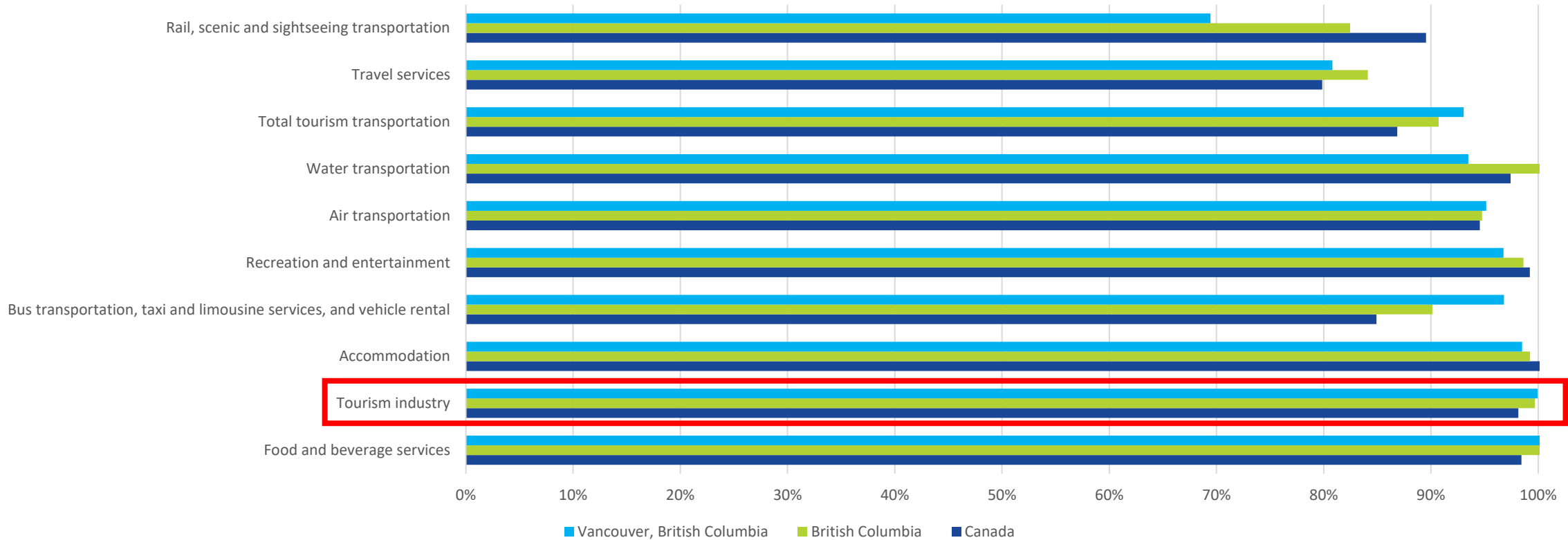


Source: The Conference Board of Canada; Statistics Canada

Strong tourism business recovery in B.C. and Vancouver

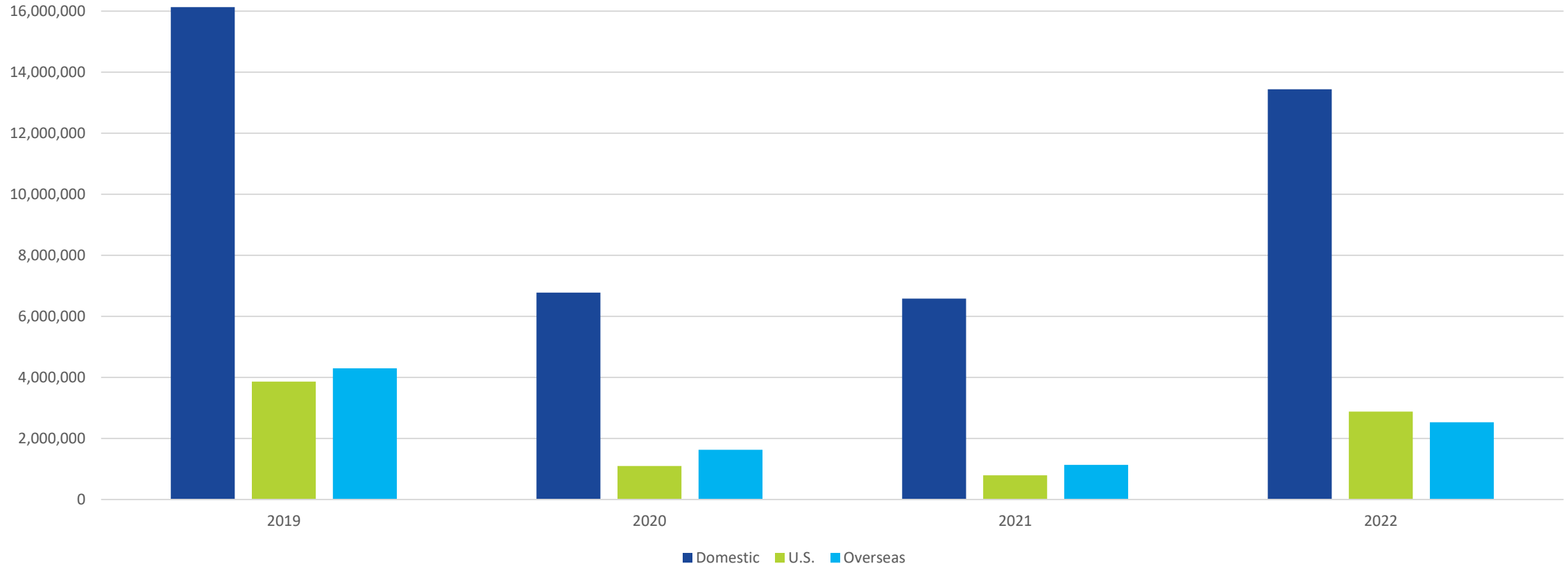


Active Business Counts (June 2022/Jan.2020)

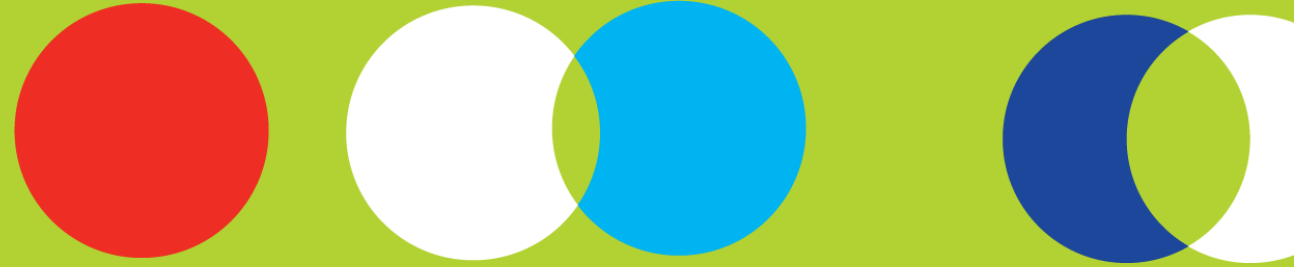


Source: Statistics Canada

Air capacity to Vancouver is ascending



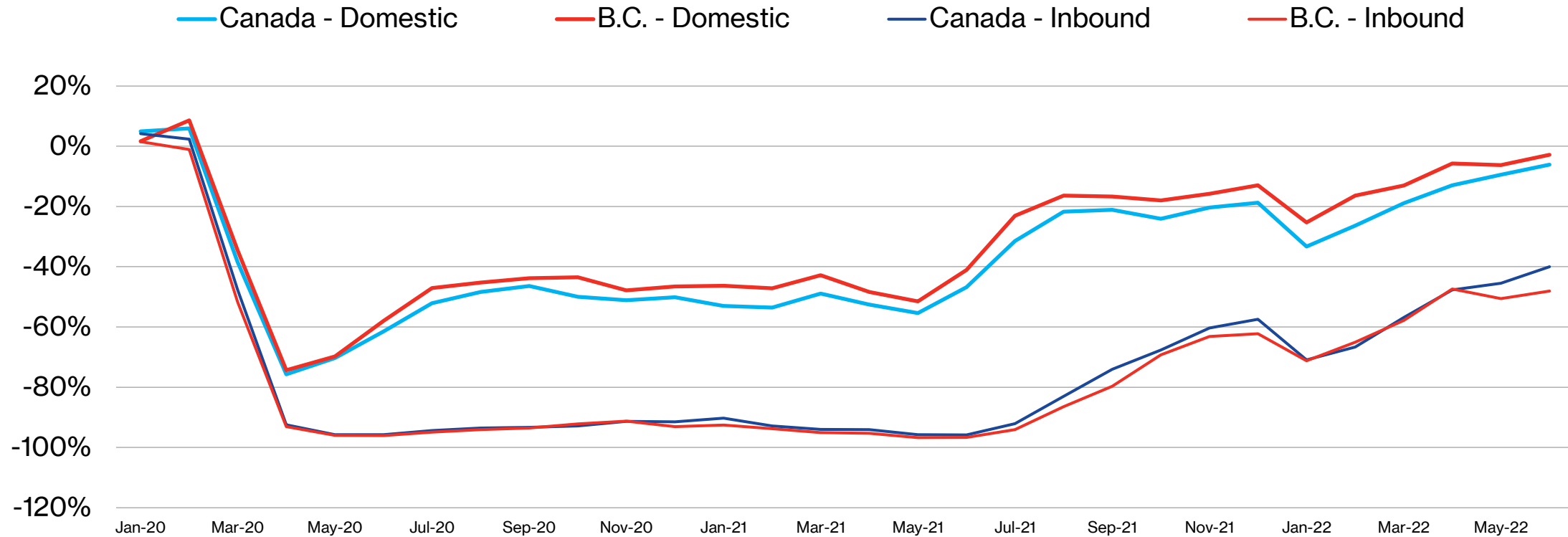
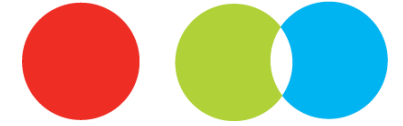
Source: Official Airline Guide (OAG); The Conference Board of Canada



Travel Markets Outlook

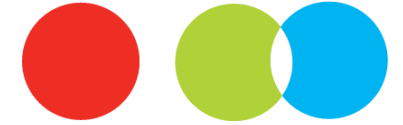
Preliminary Projections

B.C. leads Canada in domestic recovery, lagging for inbound



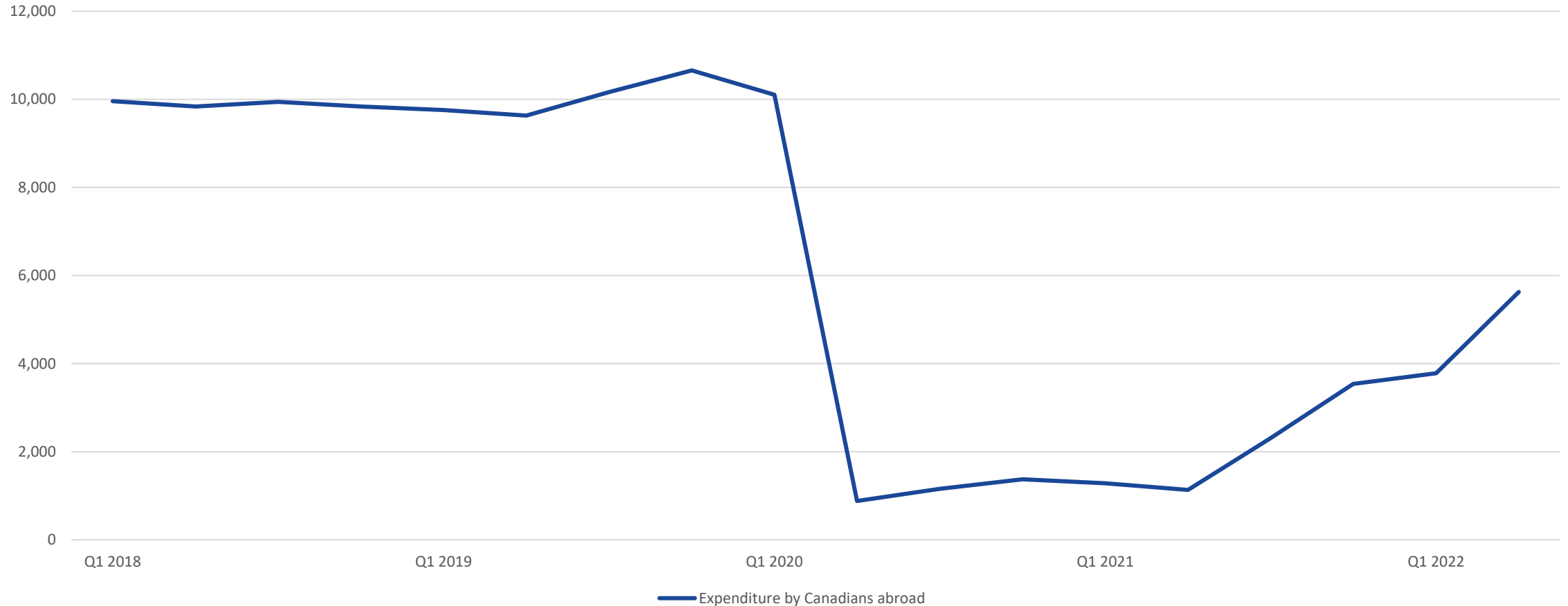
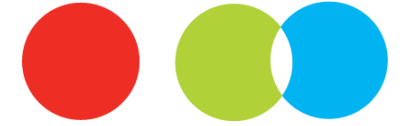
Source: Statistics Canada's Tourism Activity Tracker

Latest Forecast Assumptions



- **Labour shortages are acting as a constraint on the tourism sector's recovery.**
- **Higher prices are beginning to deter some prospective travellers from taking trips.**
- Last restrictions being lifted; will no longer factor into travel decisions.
- Discretionary spending being squeezed by higher interest rates, housing expenditures.
- Global macroeconomic conditions poor in near-term.
 - Tightening monetary policy happening everywhere at once.
- *Some displacement of business travel over the forecast period.

Domestic travel growth will slow as expenditures abroad normalize



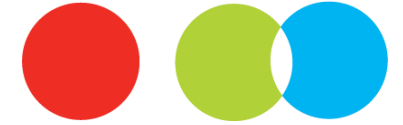
Source: Statistics Canada

Methodology



- Originates from economic drivers (GDP, disposable income, employment, exchange rates, prices, etc.).
- Non-economic factors also considered (air capacity, new attractions, infrastructure/major events, specific travel-related issues/costs and consumer confidence).
- Understand the importance of various geographic/market segments to tourism performance in each region.

Vancouver by Market Segment

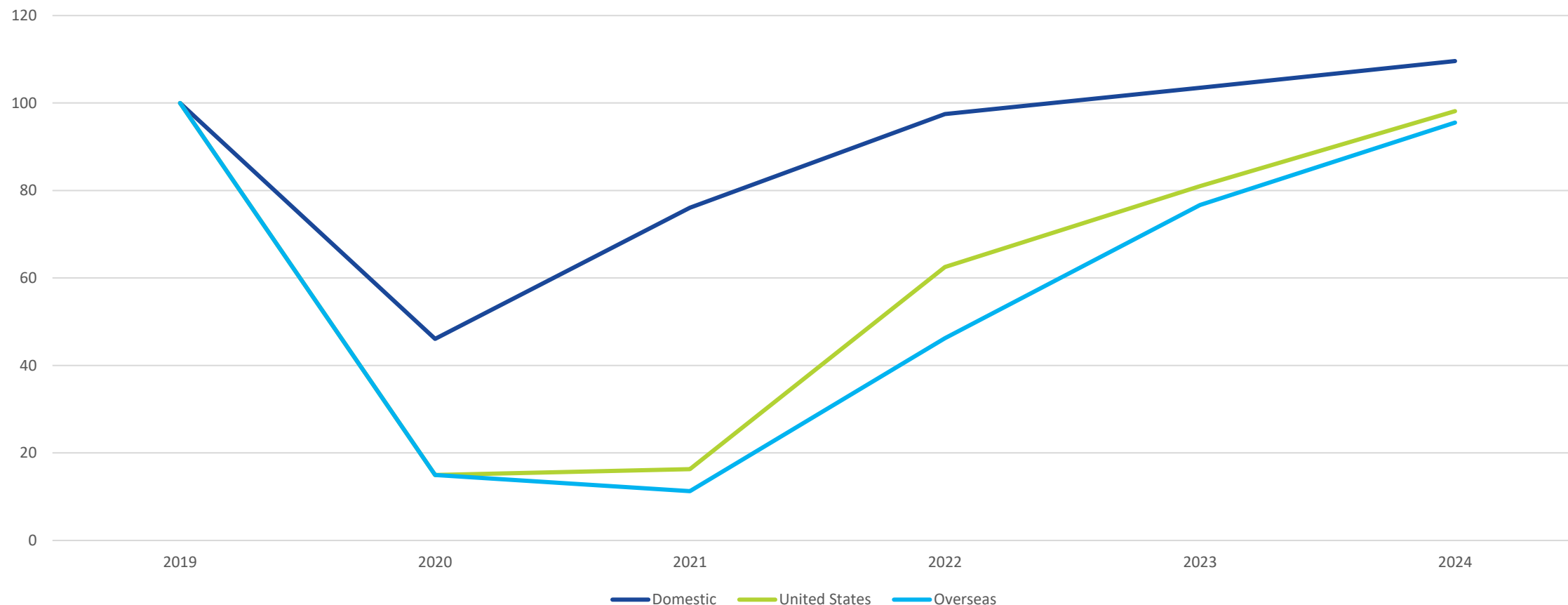


	<u>2019</u>	<u>2020e</u>	<u>2021e</u>	<u>2022e</u>	<u>2023f</u>	<u>2024f</u>
Total ('000s overnight)	100	27	39	72	89	102
	-	-73	42	86	23	15
Domestic	100	46	76	97	103	110
	-	-54	65	28	6	6
United States	100	15	16	63	81	98
	-	-85	9	285	30	21
Overseas	100	15	11	46	77	96
	-	-85	-25	310	66	25
Total Expenditures	100	22	42	72	97	116
	-	-78	89	70	35	20
Travel Price Index	1.8	-3.3	6.1	13.6	2.7	1.0

Index: 2019 = 100

Source: The Conference Board of Canada; Statistics Canada

Vancouver by Market Segment



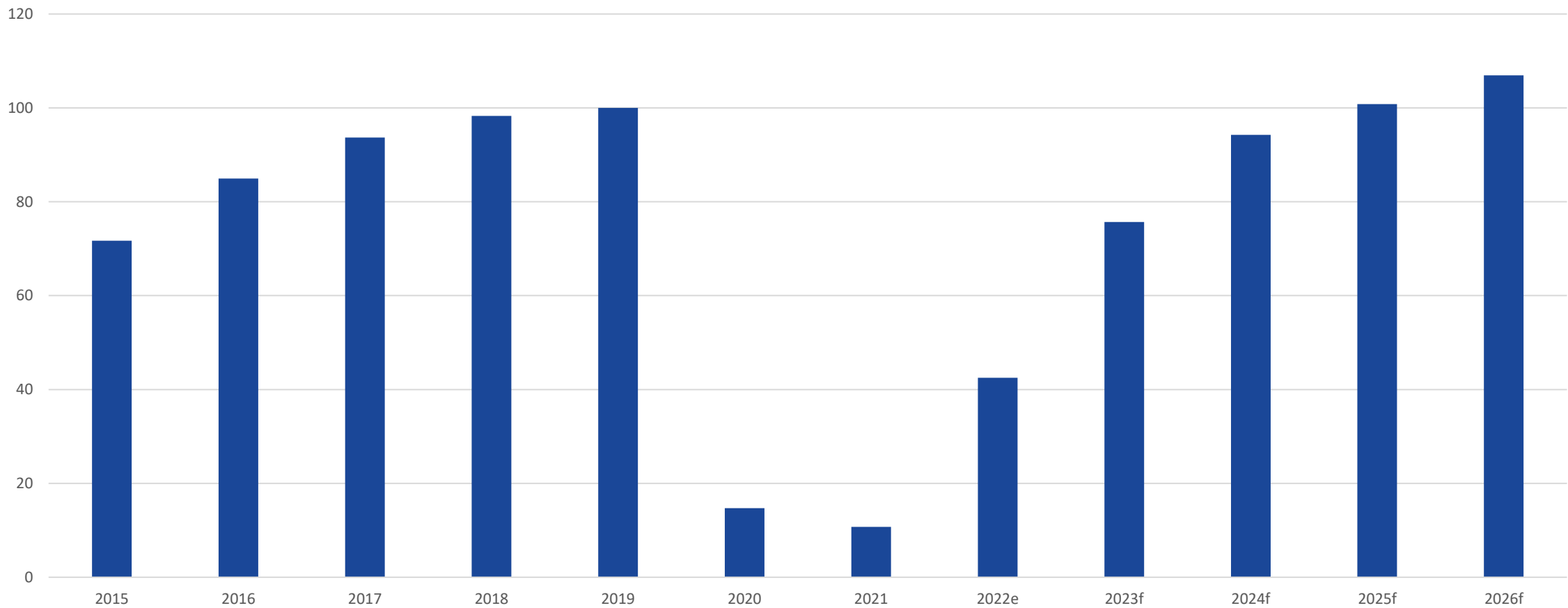
Index: 2019 = 100

Source: The Conference Board of Canada; Statistics Canada



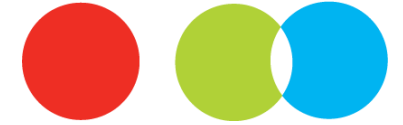
Inbound Breakdown

Overnight Arrivals to Vancouver



Index: 2019 = 100
Source: The Conference Board of Canada; Statistics Canada

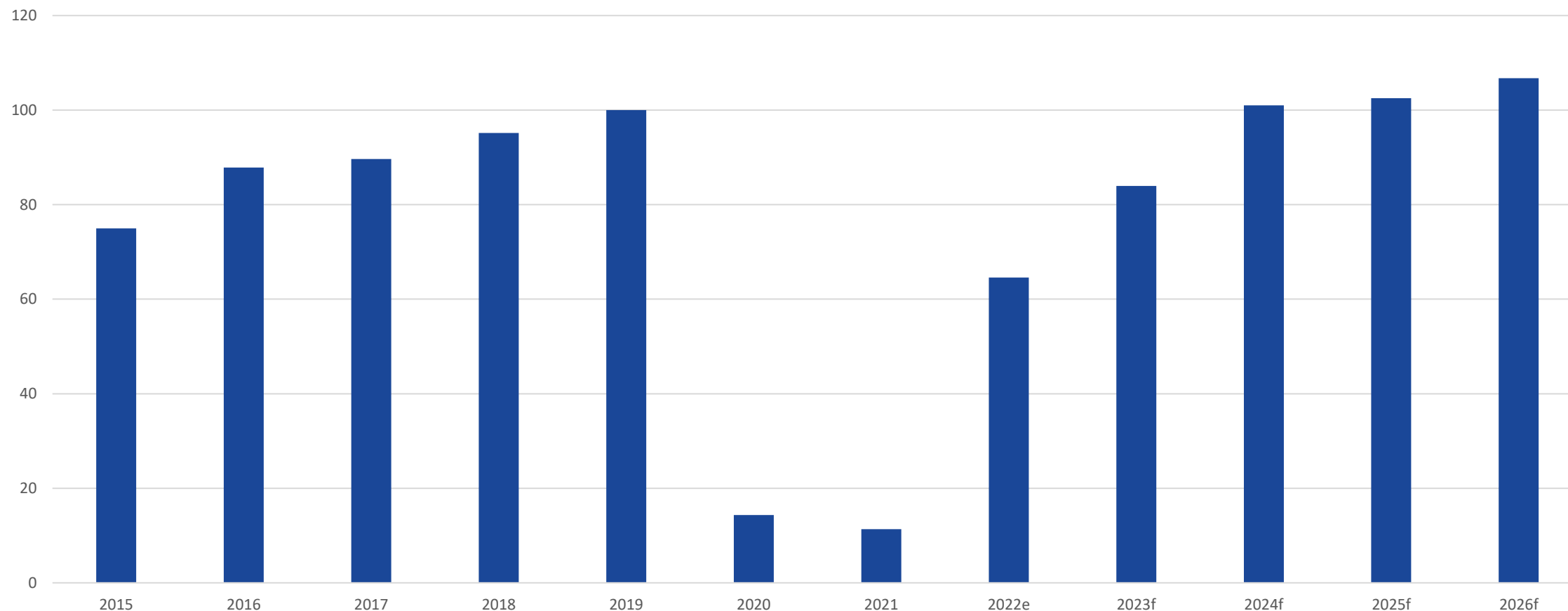
U.S. Market to Vancouver - Issues



- Inflation and higher interest rates are eating into consumer confidence (below) and discretionary spending in the U.S.
- Though fuel prices have fallen, they remain high.
- Exchange rate increasingly favourable for American visitors to Canada (to 2026).
- In August, Canada was third most desired foreign destination after Italy and Mexico
 - B.C. tied Quebec for “most likely to visit” destination in Canada (after Ontario). (Source: Destination Canada).
 - A third of American respondents indicated that there were border restrictions or hassles that would prevent them from travelling to Canada. (Source: Destination Canada).



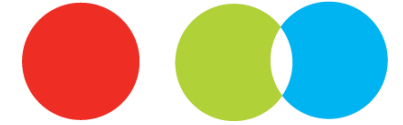
U.S. Overnight Arrivals to Vancouver



Index: 2019 = 100

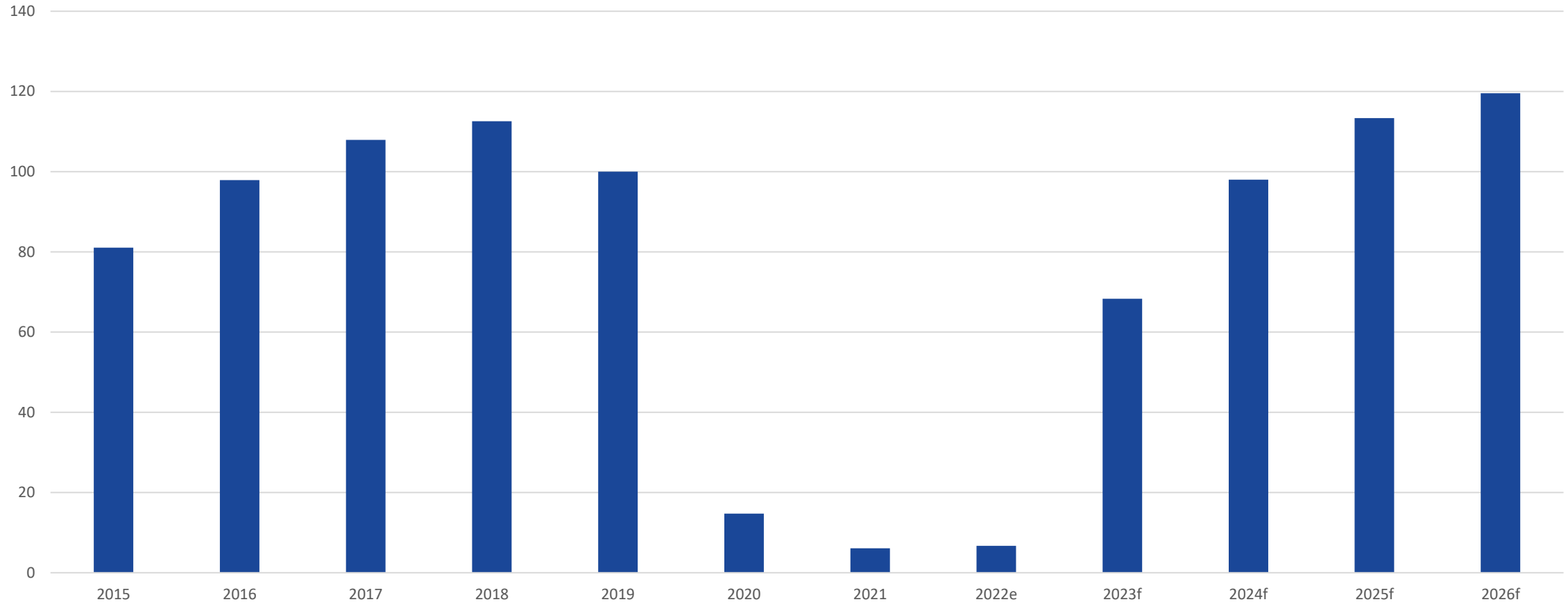
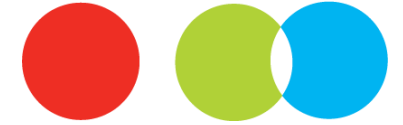
Source: The Conference Board of Canada; Statistics Canada

Overseas Market to Vancouver - Issues



- Consumer confidence low and inflation elevated in virtually all key source markets.
- ArriveCAN becoming optional; random testing ceasing; dropped vaccine requirement
- Vancouver's overnight arrivals have been slower to recover than for Canada as a whole in 2022 YTD.
- Inbound “growing pains” amid international media coverage of airport delays.
- Chinese zero-COVID policy, lockdowns and travel restrictions.
- Many European economies entering a recessionary period.
 - Lower growth and poor economic outlook bode poorly for travel demand.
- Russian invasion of Ukraine:
 - Depression of European travel sentiment
 - Some avoidance of European destinations
 - Some disruption to flights between Canada and Asia.

China - Overnight Arrivals to Vancouver

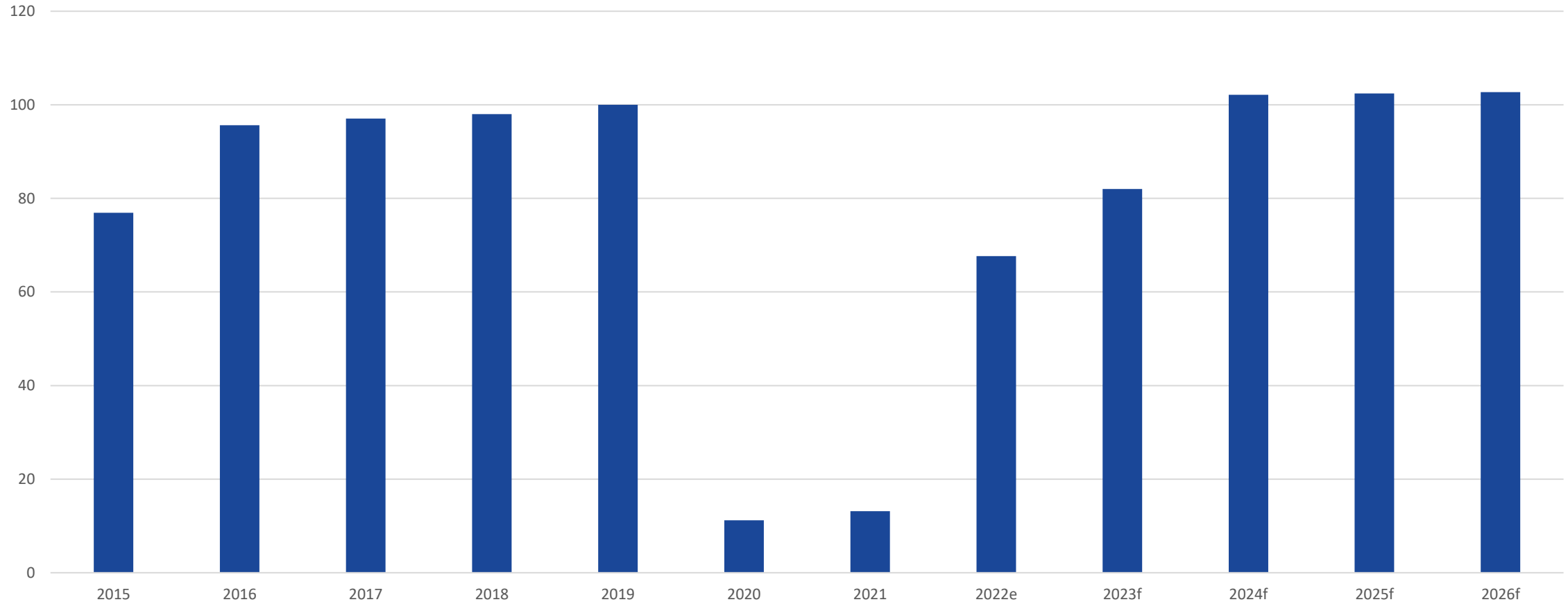


Index: 2019 = 100

Source: The Conference Board of Canada; Statistics Canada

**The Conference
Board of Canada**

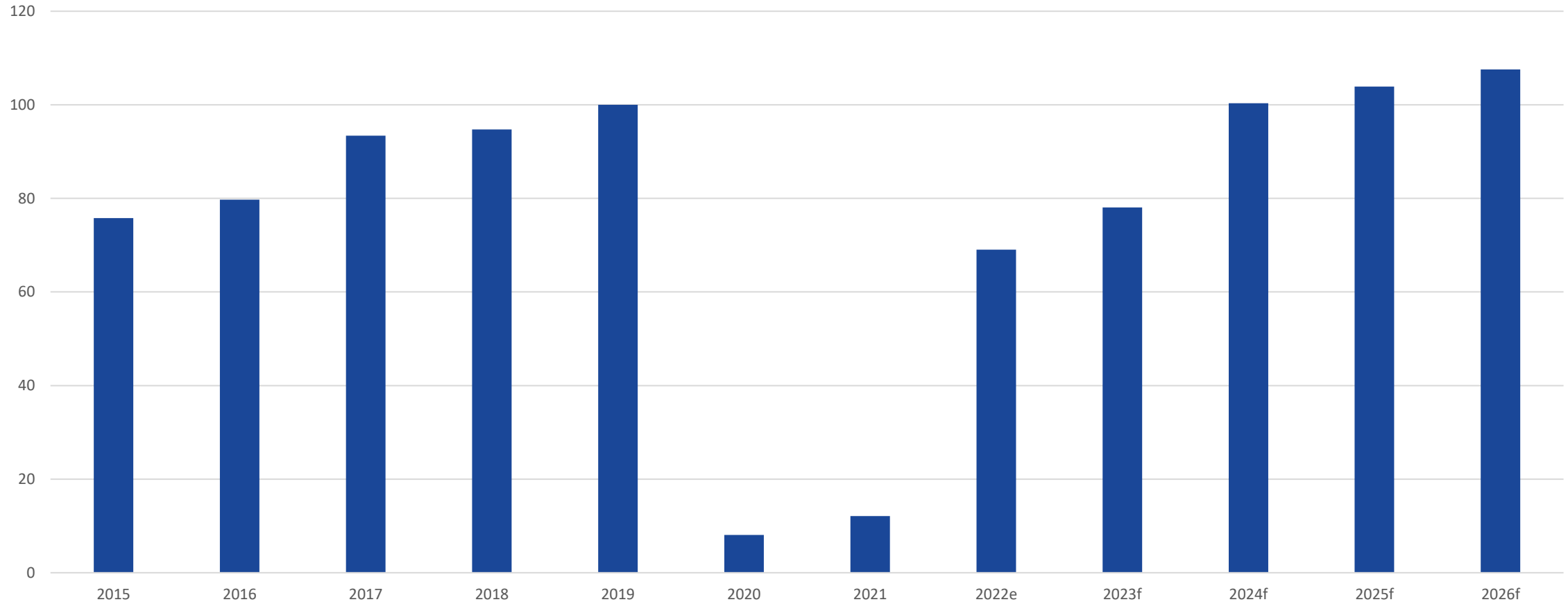
U.K. - Overnight Arrivals to Vancouver



Index: 2019 = 100

Source: The Conference Board of Canada; Statistics Canada

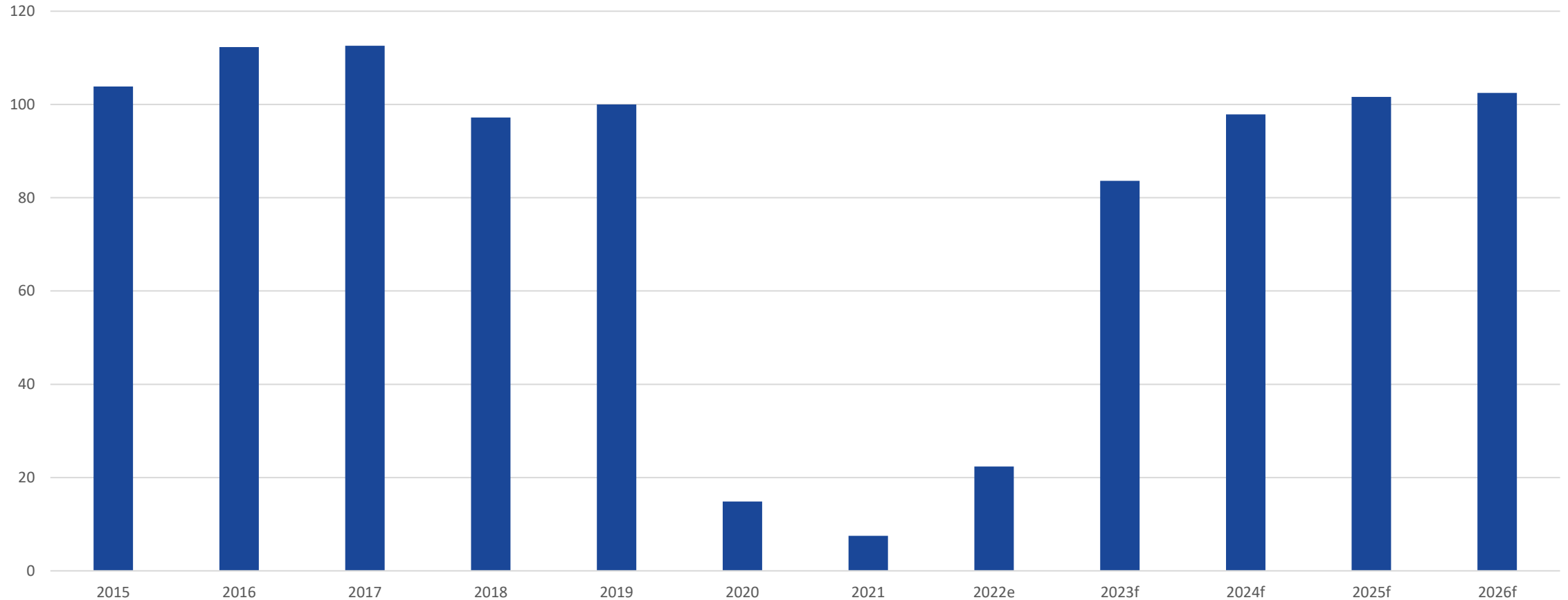
Germany - Overnight Arrivals to Vancouver



Index: 2019 = 100

Source: The Conference Board of Canada; Statistics Canada

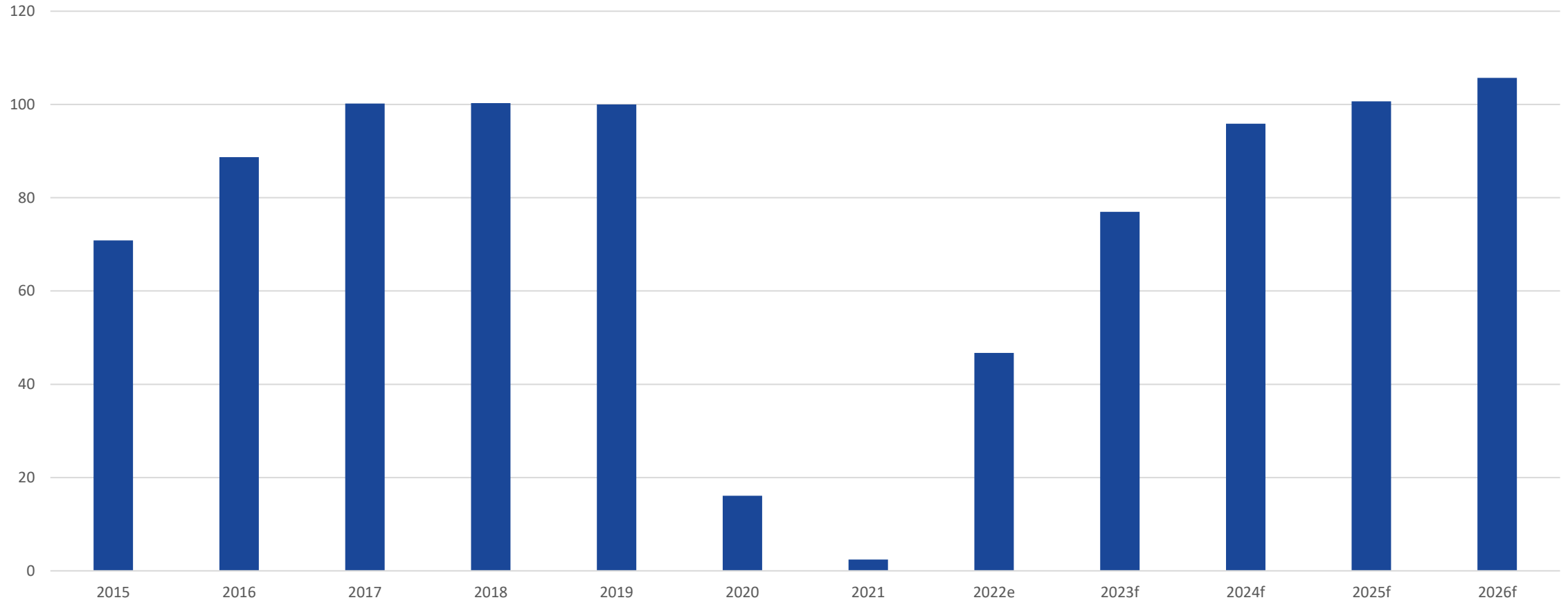
Japan - Overnight Arrivals to Vancouver



Index: 2019 = 100

Source: The Conference Board of Canada; Statistics Canada

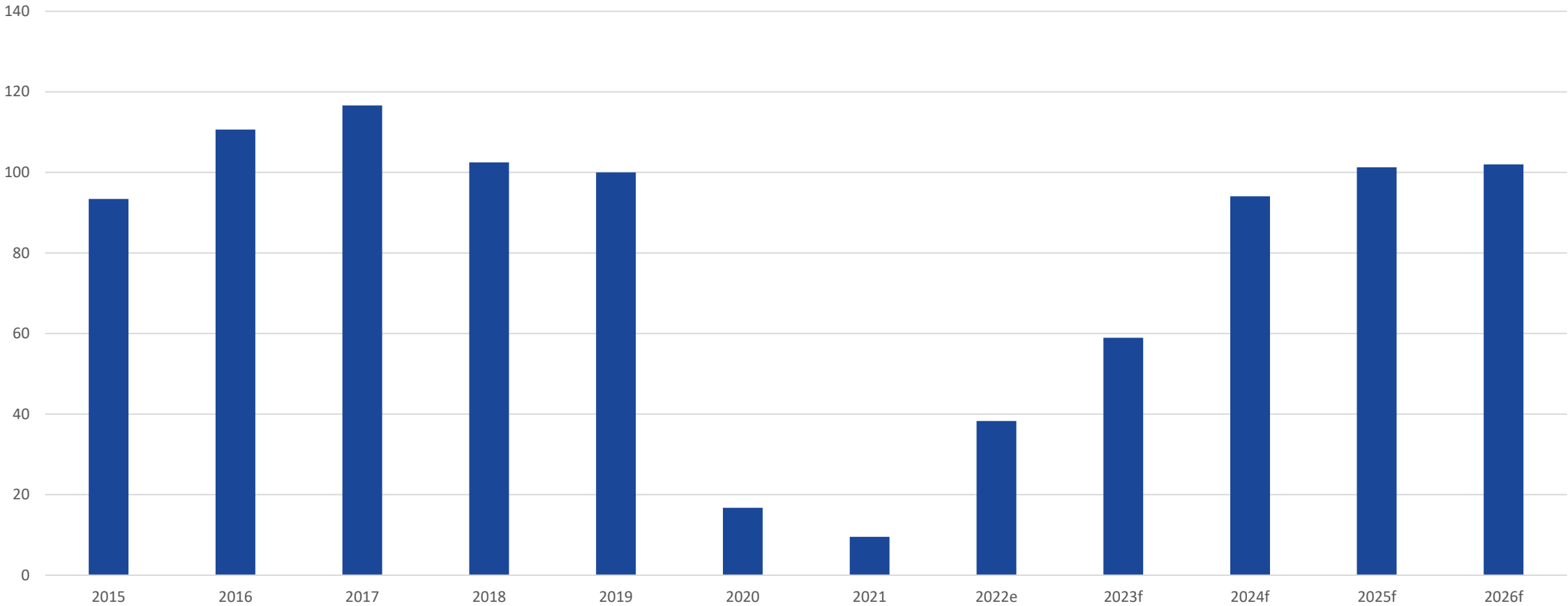
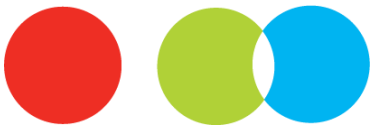
Australia - Overnight Arrivals to Vancouver



Index: 2019 = 100

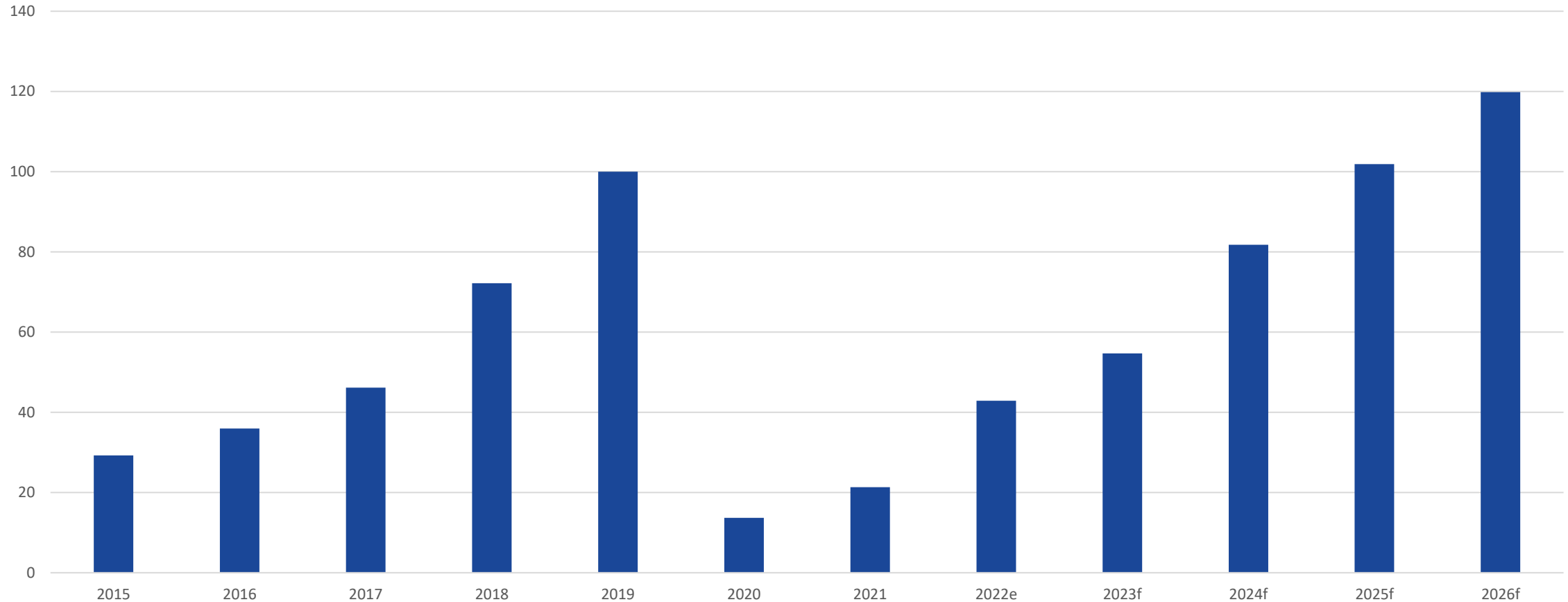
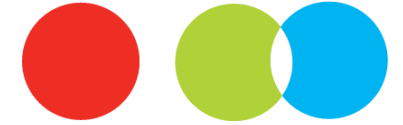
Source: The Conference Board of Canada; Statistics Canada

South Korea - Overnight Arrivals to Vancouver



Index: 2019 = 100
Source: The Conference Board of Canada; Statistics Canada

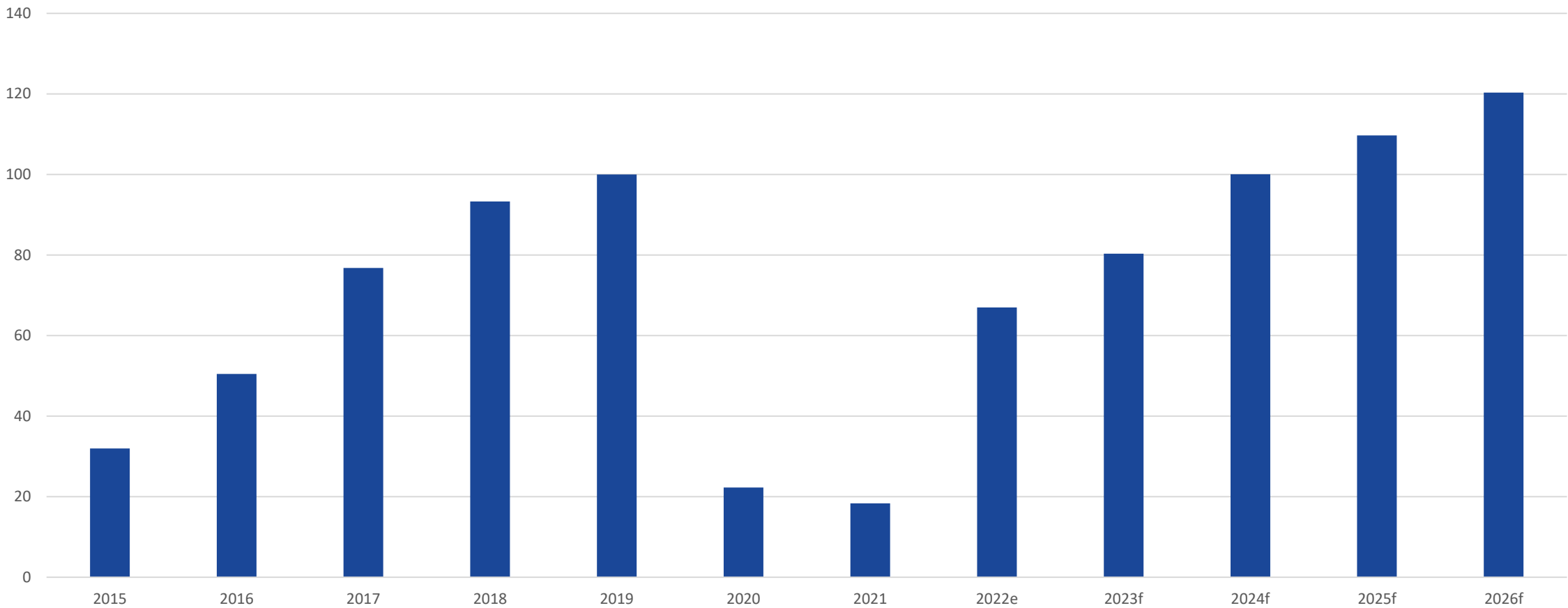
India - Overnight Arrivals to Vancouver



Index: 2019 = 100

Source: The Conference Board of Canada; Statistics Canada

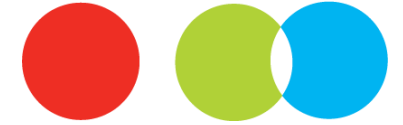
Mexico - Overnight Arrivals to Vancouver



Index: 2019 = 100

Source: The Conference Board of Canada; Statistics Canada

Summary



- “Unstoppable pent-up demand” crashing into “immovable” economic realities.
- 2023 will not bring a full return to normal, pre-COVID arrival/visit levels.
- Several brakes on domestic travel growth in near-term:
 - Price growth will remain elevated through next year, though will gradually taper down.
 - Domestic wage growth has not kept pace with inflation this year. Domestic travel budgets will be strained well into 2023.
 - Unemployment is expected to increase as monetary policy tightens.
 - Negative wealth effects, precautionary saving.
- Labour constraints on growth will not disappear even if pent-up demand dissipates.
 - Appears as though Vancouver, B.C. tourism sector is at capacity, even though overseas markets have not fully recovered.
 - Labour market conditions may tighten further as Canadian population ages.
- Global economy slowing; inflation high, consumer confidence low, discretionary spending squeeze in most of Vancouver’s key source markets.

The Conference Board of Canada

conferenceboard.ca



Q&A

Next Steps

- Presentations available on Member Extranet
- Weekly forecast via Member eNews
- Other research projects/initiatives
- Your input



Thank you!
