

Destination Canada Visitor Economy Forecast Update

June 2021

CANADA 
FOR
GLOWING
HEARTS

Canada

 **DESTINATION
CANADA**

Moving forward...



Travel fundamentals are in place:

- Travel demand is high
- Economic growth is anticipated
- Potential travellers have accumulated significant savings



BUT... re-opening will be asymmetrical:

- Countries will have different policies, re-opening approaches and timing
- Travel will be opened to travellers with demonstrated immunity against COVID-19 from countries maintaining low case counts of new infections



If the border reopens in Fall 2021, we anticipate:

- Burst of pent-up travel demand to Canada in 2022 from immunized residents of countries with low case counts and where Health Canada approved vaccines have been deployed
- Gradual movement to a 'new normal'

Key takeaway: Travel has become more complex

The timing of borders re-opening is but one piece of the puzzle, the pace of recovery will be driven by travel conditions in the home region and destination region

Visitor-centric:

- Confidence in the economy
- Personal savings
- Immunization of self and travel party

Visitor origin country / region specific:

- Number of cases & variants
- Level of vaccination / immunization in origin country or region
- Restrictions & requirements on return from a trip (e.g. quarantines)

Destination country / region specific:

- Number of cases & variants
- Acceptance of different immunization approaches (e.g. vaccines)
- Immunization documentation requirements

Recovery Scenarios

The difference between the ideal and poor travel conditions could affect our recovery by years

Travel Conditions	REV. IN 2021 (\$B)	LOSS IN 2021 VS 2019 (\$B)	LOSS IN 2022 VS 2019 (\$B)	RETURN TO 2019 LEVEL
Ideal	\$55.0	-\$50.1	-\$14.5	2023
Current	\$51.1	-\$54.0	-\$22.5	2025
Poor	\$46.0	-\$59.1	-\$34.8	>2026

Source: DC Research, May 2021 Forecast

Strategic Marketing Considerations

Competitive pressures

All destinations will be fighting to attract vaccinated visitors from the few countries that will have COVID-19 under control

- Canadians will be highly sought-after travellers, particularly in the US and the European Union

Implication:

- Canada has a short window of opportunity to build urgency for Canadians to visit Canada
- In 2021: With resort and rural destinations booked by local travellers, excess capacity available in major cities will be a prime opportunity for inter-provincial travel

High variability

Reopening will be a global patchwork

Markets may open / close as local COVID-19 cases decrease / increase above a specific threshold

Implications:

- All parts of the tourism industry, from marketing and sales to operations will need to be nimble and quickly adapt to shifting COVID-19 requirements
- Tourism may be exposed to continuing risks associated with trip cancellation

The global economy set to ramp up in mid-2021

Starting in mid-2021, very high levels of global economic growth are expected, led by the US and China:

- The expansion of vaccination programs in 2021 will enable strong growth
- Growth is anticipated to slow in 2022 and 2023 as activity normalizes
- Slow global vaccination rollouts will restrain the economic recovery in some regions through 2023
- This consumption-led growth may trigger short term inflation as supply of goods and services adjust to meet growing demand

Projection for global economic growth

Canada	6.5
United States	7.0
Euro Area	4.5
China	9.5
World	6.8

Source: Bank of Canada, Monetary Policy Report (April 21, 2021)

Top income earners have massive savings

Consumers in major economies are sitting on over \$2.9 trillion in excess saving accumulated in 2020 alone, which could be fuel for a powerful recovery as the pandemic recedes.

In the US:

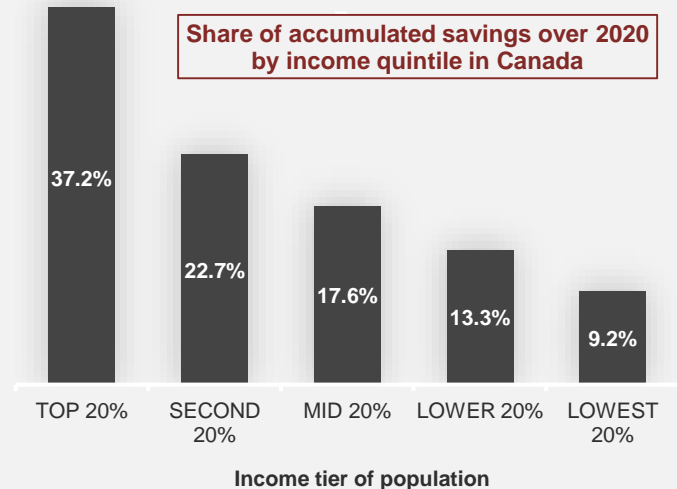
- Households saved over \$1.6 trillion more than they would have done otherwise.
- Oxford Economics estimates that the top 40% have the bulk of these savings

In Canada:

- Canadians accumulated on average \$5,800 per household in extra savings in 2020 (over \$150 billion)
- The top 40% accounted for over 60% of total savings

Sources: [S&P Global Market Intelligence](#), Consumers to unleash trillions of dollars in excess savings when pandemic ends (8 Feb. 2021); Oxford Economics; Bank of Canada, Monetary Policy Report, April 2021

REGION	EXCESS SAVINGS (USD)
U.S.	\$1,600B
Euro Area	\$465B
China	\$430B
Japan	\$300B
U.K.	\$160B
Canada	\$151B



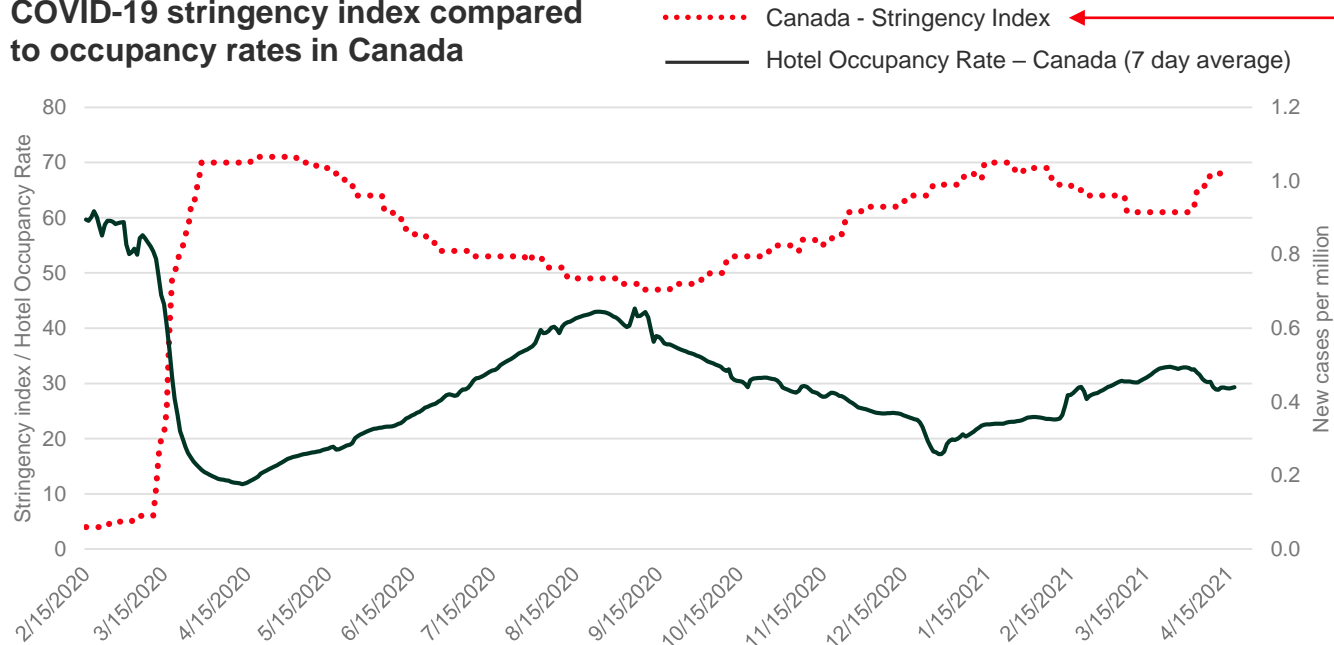
**With vaccine rollouts,
the global economy is
picking up steam.**

**But COVID-19 is still
leaving tourism
recovery in a fragile
position...**



Domestically, travel rises and falls as restrictions allow

COVID-19 stringency index compared to occupancy rates in Canada



The **Stringency Index** measures the level public health measure enforcement designed to control the spread of the virus. It is a composite indicator combining restrictive closures, case detection, isolation, contact tracing and quarantine, and personal distancing

Source: Bank of Canada; Our World in Data; STR Inc.

(<https://www.bankofcanada.ca/markets/market-operations-liquidity-provision/covid-19-actions-support-economy-financial-system/covid-19-stringency-index/>) <https://github.com/owid/covid-19-data/tree/master/public/data>



Tourism's recovery tied to high vaccine uptake

...
in Canada and abroad

Three global issues moving forward



Protecting the world's 7.8 billion people

COVID -19 knows no borders

Unvaccinated populations remain a fuel for the virus and a source of variants

Global vaccination may not be achieved until 2026



Emerging COVID-19 variants

Vaccines may not be effective against new strains emerging in unprotected populations, requiring re-imposition of restrictive containment measures

Established Variants of Concern:

B.1.1.7 (UK)

P.1 (Brazil)

B1.35.1 (South Africa)

New Variant of Interest:

B.1.617 (India)

(Country in parenthesis denoting where it was first identified)



Vaccination Hesitancy

% population who do not intend to receive a vaccine

32% **United States**

14% **Canada**

Vaccinating the world to take years at current vaccination rates

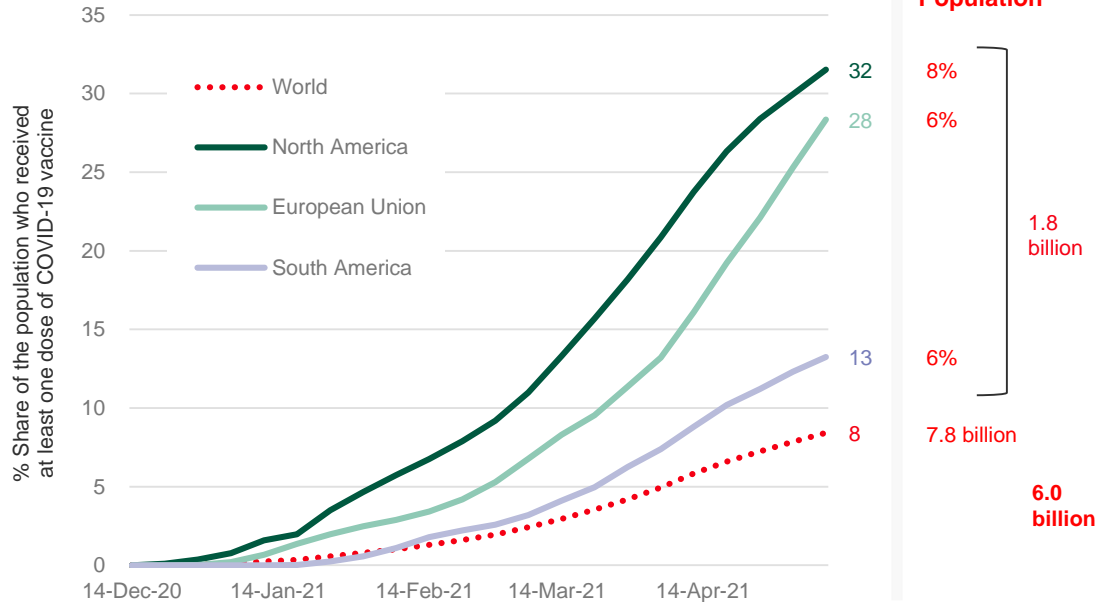
Some regions are quickly rolling out the vaccine, most of the world is not

It could take almost 5 more years based on current vaccination rates

Implication:

Increased risk that new variants could (re-)tighten borders

Share of total population who received at least one dose of COVID-19 vaccine (as of May 10, 2021)



Source: <https://ourworldindata.org/covid-vaccinations>

Global travel reopening will be asymmetric

Each country will have a number of specific and individual considerations

- Countries reaching herd immunity earlier to re-open earlier
- Some countries may open or remain open without reaching herd immunity
- Entry and re-entry conditions:
 - The level of vaccination in the country may determine the restrictions placed on international visitors AND returning residents
 - Returning / outbound travellers may be subject to the same requirements as inbound travellers (quarantines, testing, vaccinations)

How will international travel resume?

Assumptions

Immunization confirmation will be a global requirement

- Documents to confirm vaccination, testing and/or recovery from COVID-19 (the EU plans travel certificates/passports starting summer 2021)
- A global study conducted across 28 countries by Ipsos for the *World Economic Forum* revealed broad support by 78% of respondents for some sort of immunization requirement for international travels

Country vaccination rates

- Countries would reopen their borders when their own populations are vaccinated – these levels vary
- Based on current vaccination rates, the US, UK and EU would reopen first
- Other countries would depend on vaccination rates and vaccine efficacy

Disruption risks

- While the longevity of vaccines remains undetermined, new vaccine formulation may be required sooner to protect against new variants
- Supply chain disruptions from production, regulatory issues and/or emergency appropriation in manufacturing countries

Scenario Timelines & Assumptions

All scenarios assume the following:

- Proof of immunity against COVID-19 will be required
- Once restrictions are lifted, COVID-19 cases remain under control
- No serious disruptions to vaccine supply or access to vaccines

SCENARIO	JUL	AUG	SEP	OCT-NOV 2021	Q4 2021	Q1 2022	Q2 2022
Ideal	Inter-provincial travel resumes	Border gradually reopens to all					
Current	Inter-provincial travel gradually resumes		US Border Reopens	UK, EU Border Reopens	Other countries open as vaccinations allow		
Poor			Inter-provincial travel resumes		US Border Reopens	UK and EU countries reopen	All other countries reopen

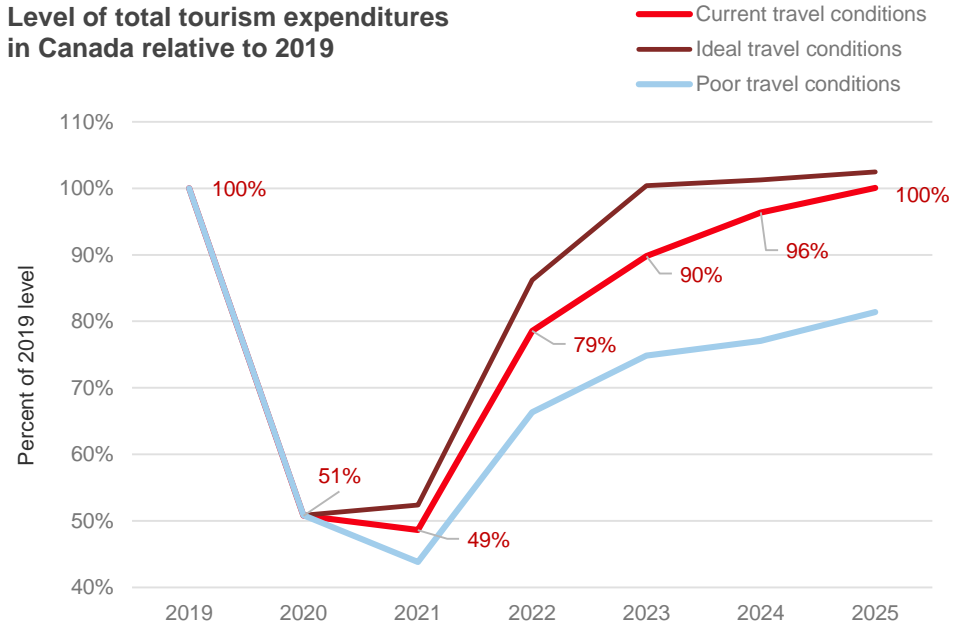
Tourism spending expected to recover by 2025

Under the current trends, tourism expenditures in Canada are expected to recover to 2019 levels by early 2025

We could recover earlier (by 2023)...

- **IF**
Global vaccination efforts are successful
- **AND**
Canadians switch a greater share of their outbound dollars towards Canadian destinations

Level of total tourism expenditures in Canada relative to 2019



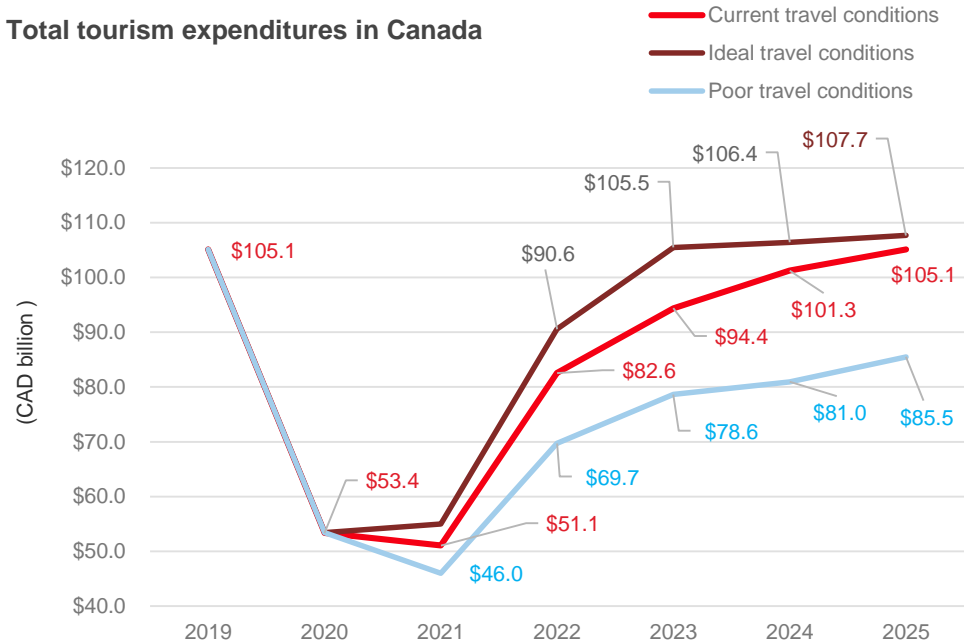
Source: DC Research, May 2021 Forecast

Recovery path remains fragile

To avoid sliding to the **poor travel conditions** scenario:

- High uptake of vaccines in Canada and key DC markets
- New cases remain low in Canada and key DC markets
- Travel confidence continues to grow
- Barriers to travel continually lowered

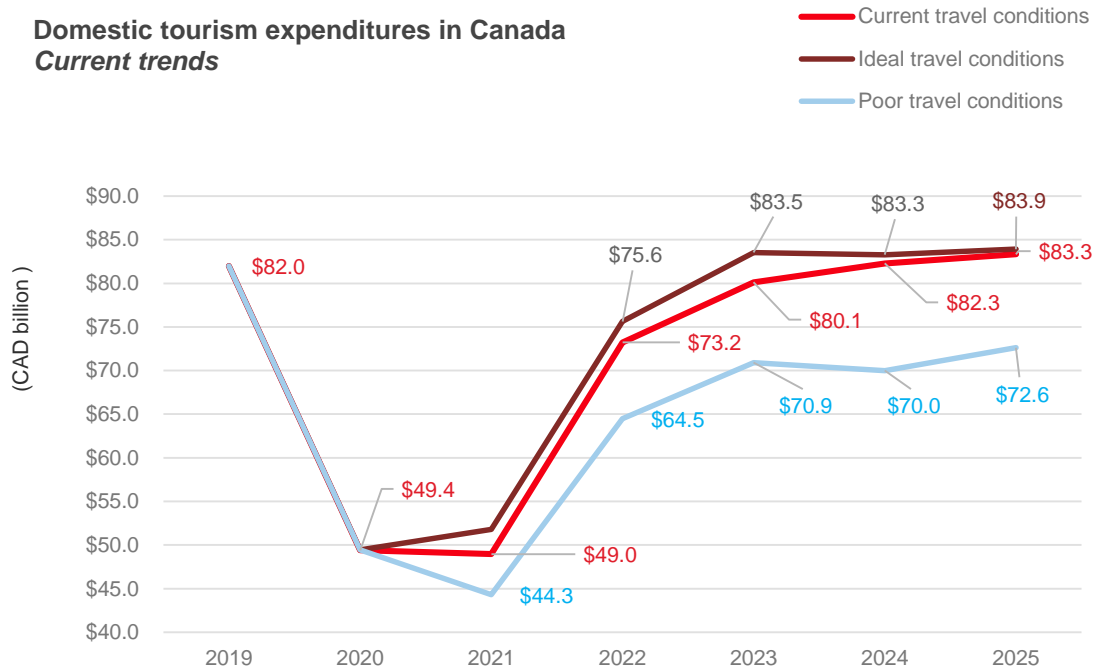
Total tourism expenditures in Canada



Source: DC Research, May 2021 Forecast

Domestic tourism spending to rebound faster than international tourism into Canada

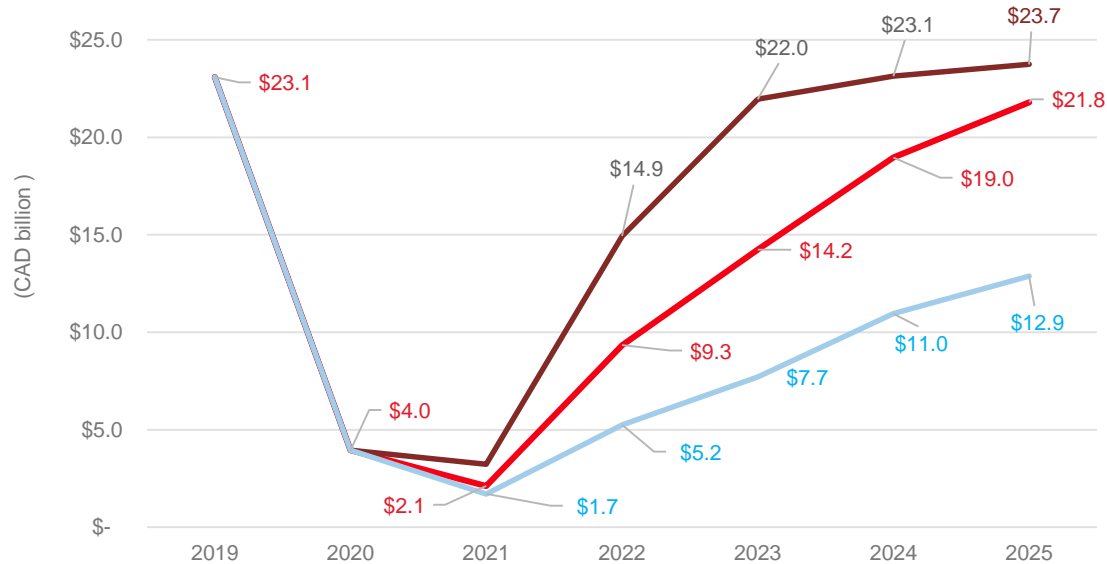
Domestic tourism expenditures in Canada
Current trends



- Once internal restrictions are lifted, Canadians' normal travel patterns should resume
- In the short term, domestic tourism should benefit from a boost in conversion from outbound to domestic travel

International tourism could face a longer path to recovery

International inbound tourism expenditures in Canada
Current trends



- International arrivals will be constrained over short to medium term
- A key unknown is the travel from Asia / Pacific markets

Forecast: Current trend to 2022 (Domestic)

Projected tourism expenditures under current trends – CAD \$ Billion

	2019	2020	2021	2022
Total Tourism Expenditures	105.1	53.4	51.1	82.6
Total Domestic	82.0	49.4	49.0	73.2
Within Provinces	33.2	24.1	28.7	33.3
Between Provinces	12.6	4.7	5.6	12.5
Import Substitution*	..	1.1	3.6	5.1
Other expenditures**	36.2	19.4	11.0	22.4

This assumes Canadians to divert over \$3.6B from outbound to domestic travel, accelerating in 2022, before contracting as Canadians resume travelling internationally

DC's goal is to accelerate this behaviour through promotions and other activities and permanently transfer outbound spending domestically

Overall domestic expenditures are set to decline in 2021 due to the collapse in air travel, in particular outbound travel by Canadians

* Includes spending during trip within and outside one's province or territory of residence.

** Includes spending on international and interprovincial airfares, travel services, and pre-trip expenditures on tourism specific single-purpose goods (luggage, camping equipment, trailers, campers)

Forecast: Current trends (Domestic)

Out-of-province domestic travel is likely to recover by 2022

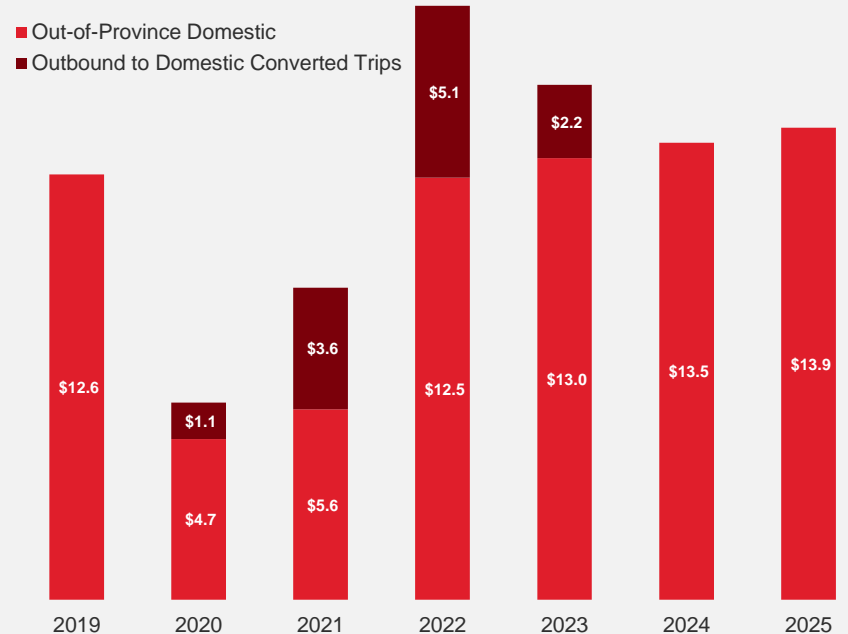
2021 will see modest growth over 2020 as restrictions have all but stopped travel in the first six months of 2021

We anticipate further growth in domestic travel fueled by savings and Canadians tempering their expectations of travelling abroad

The key drivers impacting this travel:

- Internal restrictions lifted by summer
- Continued low numbers of new COVID-19 cases
- Successful “Buy local” focus by destination marketers

Forecast: Current Trends
Out-of-province and conversion of outbound travel



Source: DC Research, May 2021 Forecast

Forecast: Current trends (International)

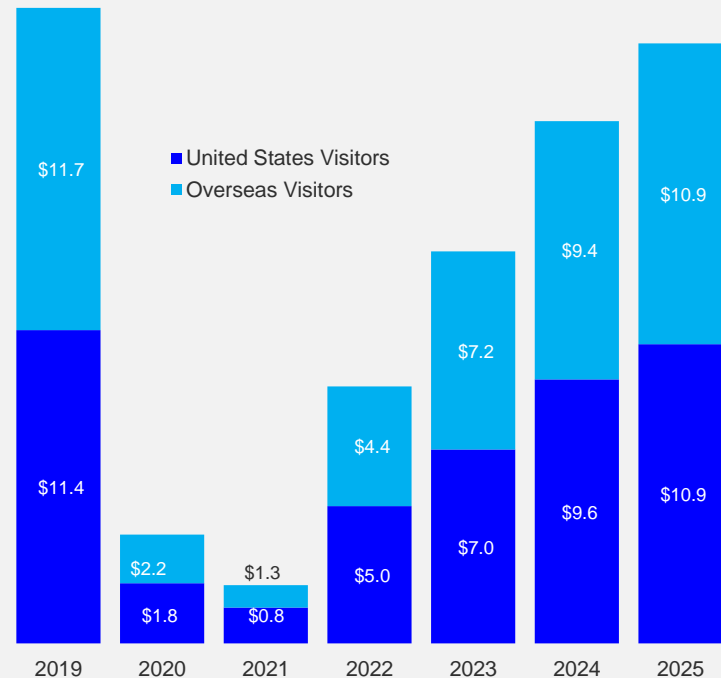
Spending from the US will be limited, and may only be at 12% of 2019 levels in 2021, building to 44% in 2022 and potentially fully rebounding by 2025 - 2026

Spending from other countries will be similarly depressed in 2021, standing at 7% of 2019 levels before improving to 37% in 2022

The key drivers impacting international travel include:

- Depressed business travel
- Relatively low levels of vaccine uptake in other countries
- Continued restrictive border controls
- Increased competition internationally focused on frequent travellers and fully vaccinated individuals with high savings
- “Buy local” focus by destination marketers

Level of total tourism expenditures in Canada relative to 2019 (CAD billion)



Source: DC Research, May 2021 Forecast

Seasonal opportunities

Based on current conditions such as on vaccination rates, travel patterns, the opportunities for travel into Canada vary over time and by season

	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	COMMENT
Domestic		Urban					*For Canada's 2021 summer, outdoor venues are highly booked, there may be opportunity for urban tourism
US		Border opening					We anticipate border reopening in Fall
Europe							Europe will reopen in Q3, but likely will stay closer to home in the short term
Asia / Pacific							Asia-PAC and long haul will likely stay closer to home in the short term

Key trends to track moving forward

Global vaccination rates and numbers of new cases

Airline flight resumption and frequency of flights on routes

Traveller sentiment – confidence to travel and trust in travel industry

Country reopening dates

Leisure travel trends:

- Fewer trips / Longer trips
- Distance travelled
- When will city stays come back?
- When will group travel come back?

Business travel issues:

- Whether companies need to manage COVID-19 risk to employees
- Privacy issues (can companies ask / require immunization proof?)
- Longer trips
- Impacts of virtual technology and what types of meetings are going virtual / hybrid

Annex: Details

Forecast: Current trend to 2025

Recovery by 2025, with slightly higher inter-provincial travel and slightly lower international travel

Projected tourism expenditures under current trends – CAD \$ Billion

	2019	2020	2021	2022	2023	2024	2025
Total Tourism Expenditures	105.1	53.4	51.1	82.6	94.4	101.3	105.2
Total Domestic	82.0	49.4	49.0	73.2	80.1	82.3	83.3
Within Provinces	33.2	24.1	28.7	33.3	33.3	33.5	33.9
Between Provinces	12.6	4.7	5.6	12.5	13.0	13.5	13.9
Import Substitution*	..	1.1	3.6	5.1	2.2
Other expenditures**	36.2	19.4	11.0	22.4	31.6	35.3	35.5
Total International	23.1	4.0	2.1	9.4	14.3	19.0	21.8
International - US	11.4	2.2	1.3	5.0	7.0	9.6	10.9
US Land	5.1	1.1	0.7	2.3	3.3	4.2	5.0
US Air & Sea	6.3	1.1	0.6	2.7	3.7	5.4	5.8
International - Overseas	11.7	1.8	0.8	4.4	7.2	9.4	11.0
(UK, FR, DE)	3.0	0.2	0.3	1.6	2.3	2.9	3.1
(AU CN JP MX)	3.8	0.4	0.1	1.3	2.5	3.2	3.6

* Includes spending during trip within and outside one's province or territory of residence.

** Includes spending on international and interprovincial airfares, travel services, and pre-trip expenditures on tourism specific single-purpose goods (luggage, camping equipment, trailers, campers)

Forecast: Ideal Conditions (Details)

Under ideal conditions, total tourism spending on Canadian goods and services would return in 2019 level by 2023, driven first by the full recovery of domestic tourism by 2023, followed by spending from international visitors by 2024.

Projected tourism expenditures under current trends – CAD \$ Billion

	2019	2020	2021	2022	2023	2024	2025
Total Tourism Expenditures	105.1	53.4	55.0	90.6	105.5	106.4	107.7
Total Domestic	82.0	49.5	51.8	75.6	83.5	83.3	83.9
Within Provinces	33.2	26.6	30.6	33.5	33.7	34.4	35.5
Between Provinces	12.6	4.7	5.5	13.0	14.7	13.4	12.9
Import Substitution*			3.8	6.8	3.5	0.2	
Other expenditures**	36.2	18.1	11.9	22.4	31.6	35.3	35.5
Total International	23.1	4.0	3.2	14.9	22.0	23.1	23.7
International - US	11.4	2.2	1.9	7.5	10.6	11.3	11.5
US Land	5.1	1.1	1.1	3.8	5.2	5.5	5.6
US Air & Sea	6.3	1.1	0.8	3.7	5.4	5.9	6.0
International - Overseas	11.7	1.8	1.3	7.5	11.3	11.8	12.2
DC Regions							
Europe (UK, FR, DE)	3.0	0.2	0.3	2.0	3.0	3.1	3.2
Asia-Pacific (AU CN JP MX)	3.8	0.4	0.4	2.3	3.7	3.8	4.0

Ideal conditions Assumptions

Key aspects of scenario:

- Vaccines are effective against variants
- Vaccination rates accelerate globally
- Global immunity rates (vaccinated and recovered populations) are high
- Multi-lateral cooperation on distribution of vaccines
- Internationally - pent-up demand for travel happens in 2022, but is limited by vaccinations, airline re-opening and will not exceed 2019 levels of travel

We are currently trending closer to this scenario

Forecast: Poor conditions (Details)

Under poor conditions, domestic tourism will emerge as the main driver of visitor activities as international arrivals remain subdued as a result endemic spread of COVID-19 requiring stringent measures to limit the importation of new variants and increasing the overall cost of travel.

Projected tourism expenditures under current trends – CAD \$ Billion

	2019	2020	2021	2022	2023	2024	2025
Total Tourism Expenditures	105.1	53.4	46.0	69.7	78.6	81.0	85.5
Total Domestic	82.0	49.5	44.3	64.5	70.9	70.0	72.6
Within Provinces	33.2	26.6	29.5	33.0	35.0	36.0	37.4
Between Provinces	12.6	4.7	3.4	10.6	12.5	13.1	13.7
Import Substitution*	1.1	3.9	0.7
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US Land	5.1	1.1	0.6	1.8	2.2	2.9	3.6
US Air & Sea	6.3	1.1	0.4	1.9	2.3	3.2	3.5
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DC Regions							
Europe (UK, FR, DE)	3.0	0.2	0.2	0.6	1.0	1.8	2.0
Asia-Pacific (AU CN JP MX)	3.8	0.4	0.1	0.5	1.2	1.6	1.9

Poor conditions Assumptions

Key aspects of scenario:

- Markets in Asia Pacific open with considerable delays – Q2 2022
- Low vaccination rates in Asia Pacific
- Flare up of new waves / new variants
- Vaccine efficacy length is shorter than anticipated
- Vaccine efficacy against variants is lower than anticipate
- Delays / interruptions in deployment of vaccines (booster and initial vaccinations)

Resulting in constraints on international travel, border restrictions and hesitancy to travel