Spending on Canada's Lodging Sector Slows

9/23/2005

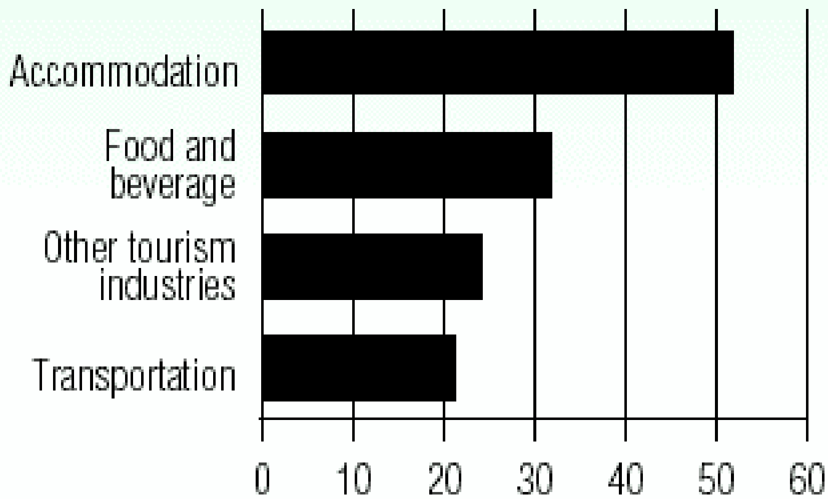
Ottawa, Ontario – Hampered by fewer foreign visitors because of a strong Canadian dollar, growth in spending on Canada's lodging industry is expected to slow to 3.7 percent this year after a 4.7 percent gain last year, the Conference Board of Canada reported in a recent study.

Last year's gains were fueled by a rebound in international traffic after the SARS health crisis waned, but most growth in the Canadian industry this year will come from domestic spending, the report said. Domestic Canadian business travel, however, has yet to fully recover from its 2003 shortfall.

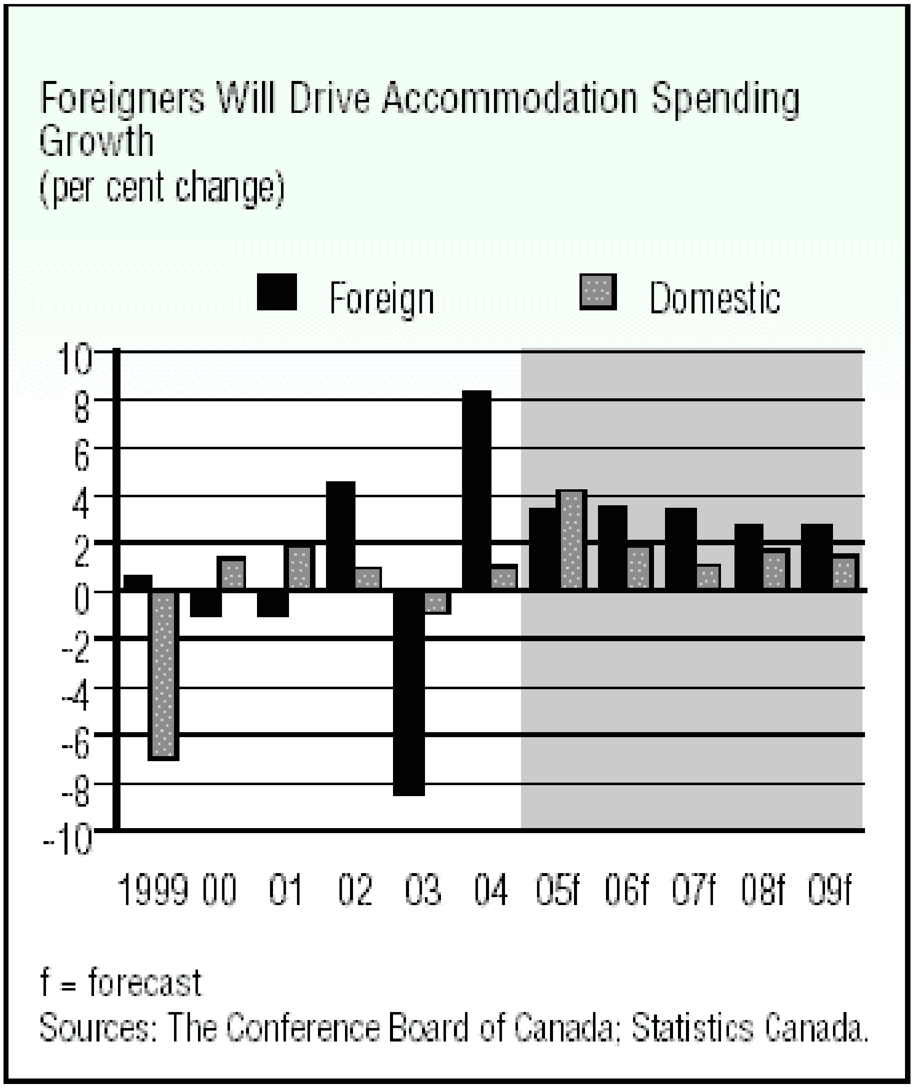
Canada's lodging industry depends on spending by foreign travelers more than other tourism and travel sectors in the country, the report said. Foreigners' trips are longer, and residents are more likely stay with people they know.

Through 2009, the report added, foreign spending will be the major driver of growth in Canada's lodging segment. Foreign and total accommodation spending will average growth of 3.1 percent and 2.3 percent, respectively, between 2006 and 2009. The share of spending by non-residents will steadily rise.

Accommodation Has the Highest Trade Exposure
(foreign share of real demand, per cent, 2004)



Sources: The Conference Board of Canada; Statistics Canada.



Still, the report added, there is plenty of upside for Canadian hotels, resorts and inns.

"As real spending climbs back to its pre-SARS level, the accommodation industry will benefit," the report said. "Although growth in foreign spending slowed in the second half of the year, as the effects of the strong Canadian dollar became apparent, growth in domestic spending has been accelerating."

Gains are being made in both occupancy and room rates at hotels across Canada, the report said. Citing PKF Consulting research, it noted that national occupancy rates rose 0.7 points and room rates were up 1.3 per cent in the first quarter.

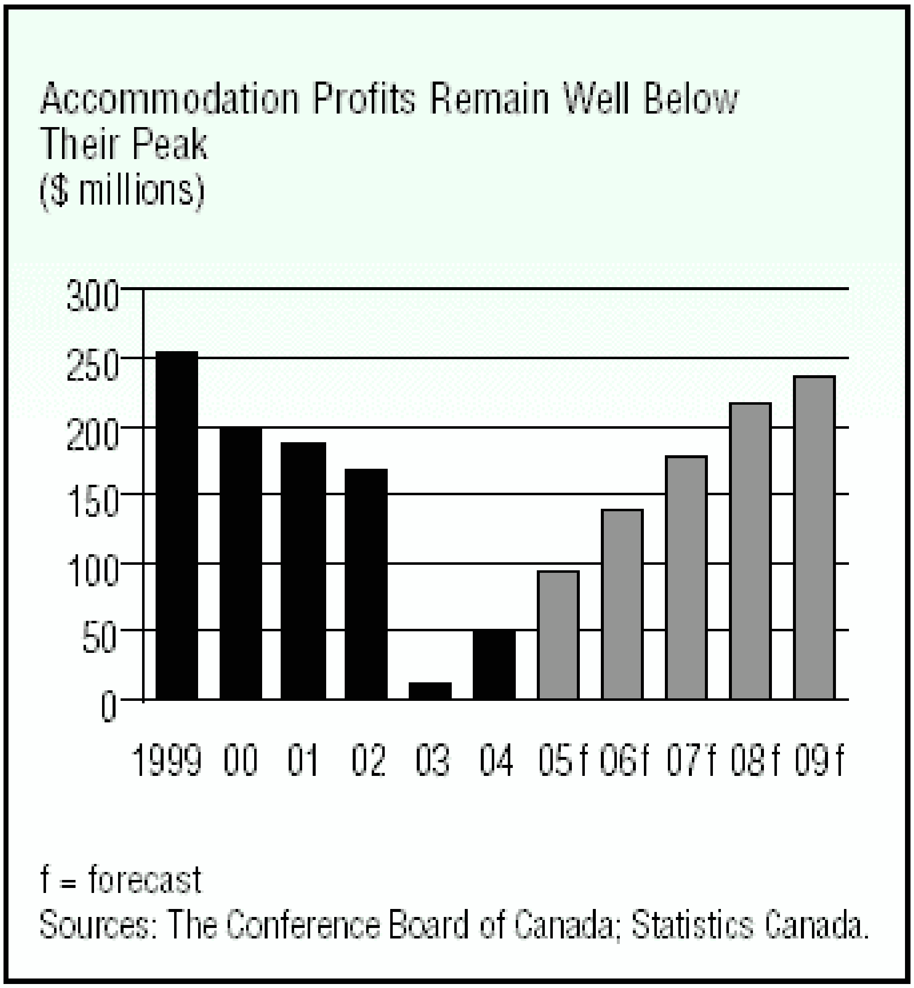
The Conference Board forecast "healthy" average annual revenue growth of 4.9 percent over the next five years.

The Conference Board report also said pricing power remains strong among the country's hotels. That's because "hotels are able to compete on a variety of different levels of quality and services, so large operations generating significant economies of scale are not generally necessary for a company to be profitable."

Limited competition in some segments has helped push prices in the Canadian lodging industry up 2.4 percent per year on average over the past decade, the study said. Those signal the largest gains in the tourism sector and are well above the pace of inflation.

Further, new lodging entrants - typically bed and breakfasts and other small operations - are common. Adding rooms – or removing them when these smaller operations go out of business – keeps occupancy rates relatively stable, the group said.

Casino hotels and resorts account for one lodging segment that has remained limited. "The heavy regulation of casinos by provincial gaming authorities," the report said, "provides an almost insurmountable barrier to entry for additional competitors."



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