



2016 TOURISM OUTLOOK BRIEFING



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The Conference Board
of Canada

The World Economic Outlook:

Commodity Price Collapse Sideswipes Global Economy

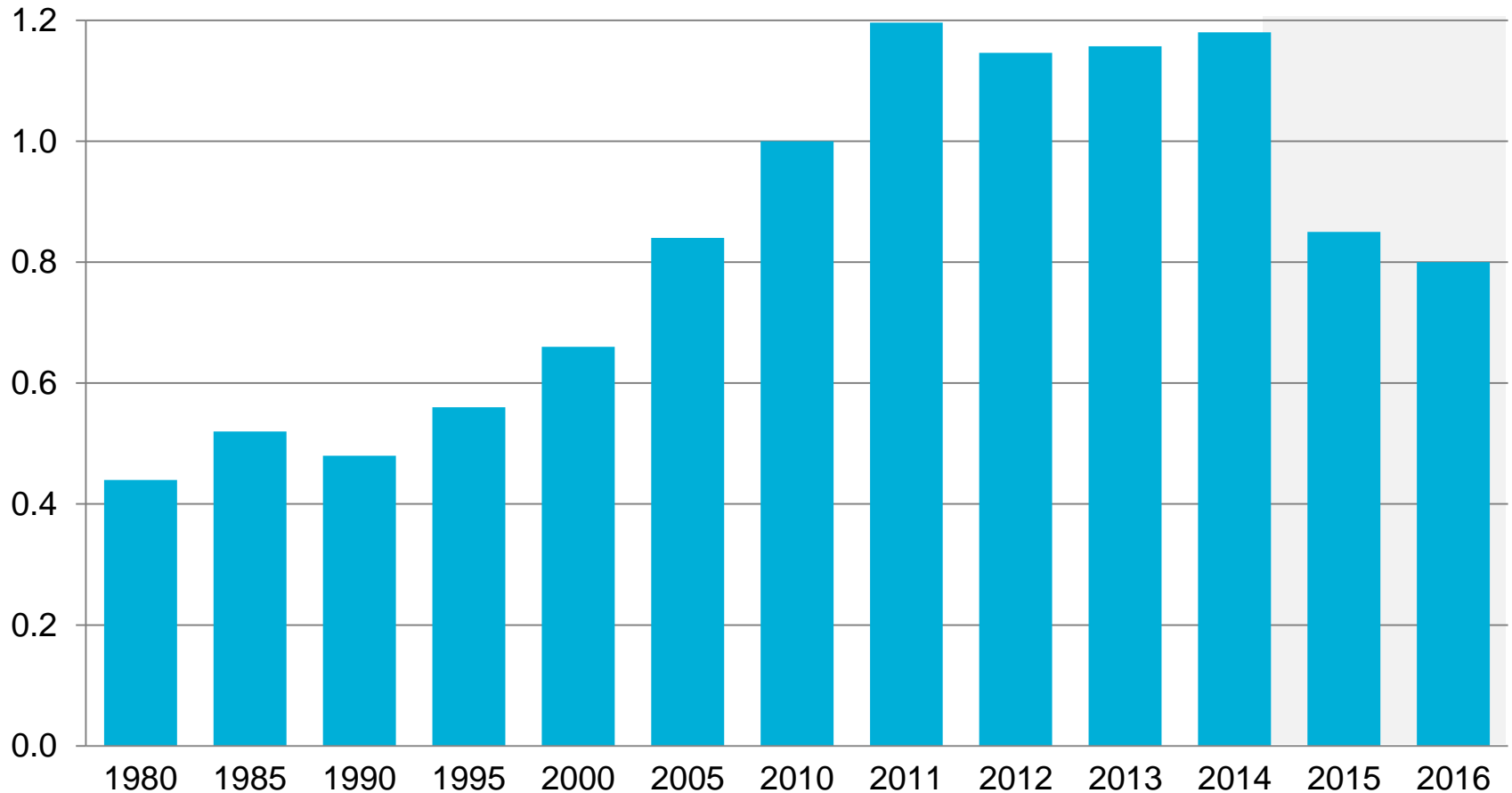
Kip Beckman

Principal Economist, World Outlook, The Conference Board of Canada

October 29th , 2015

Commodity Price Index

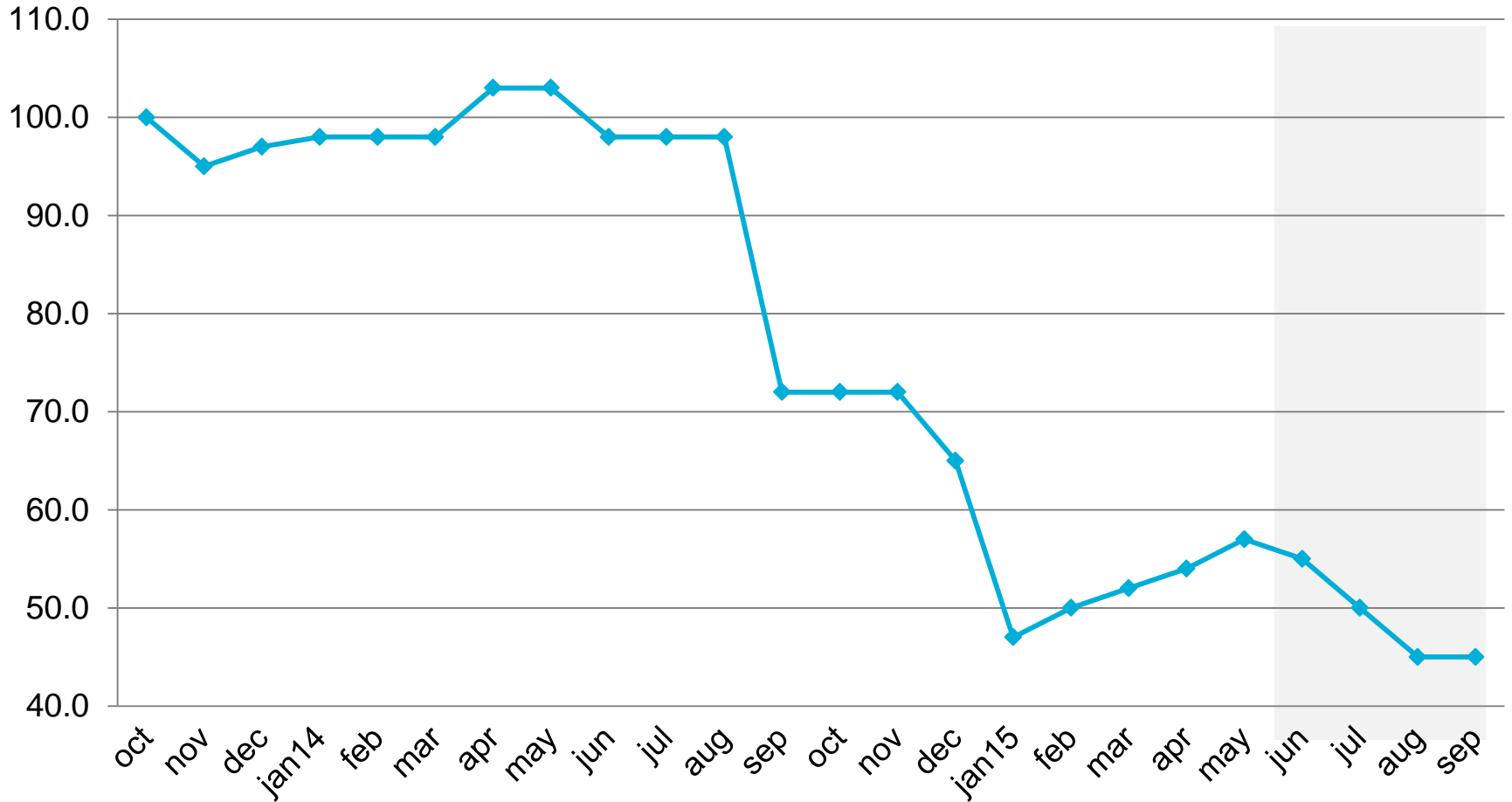
2010=1.0



Source: CBoC.

World Oil Prices

wti, \$ per barrel



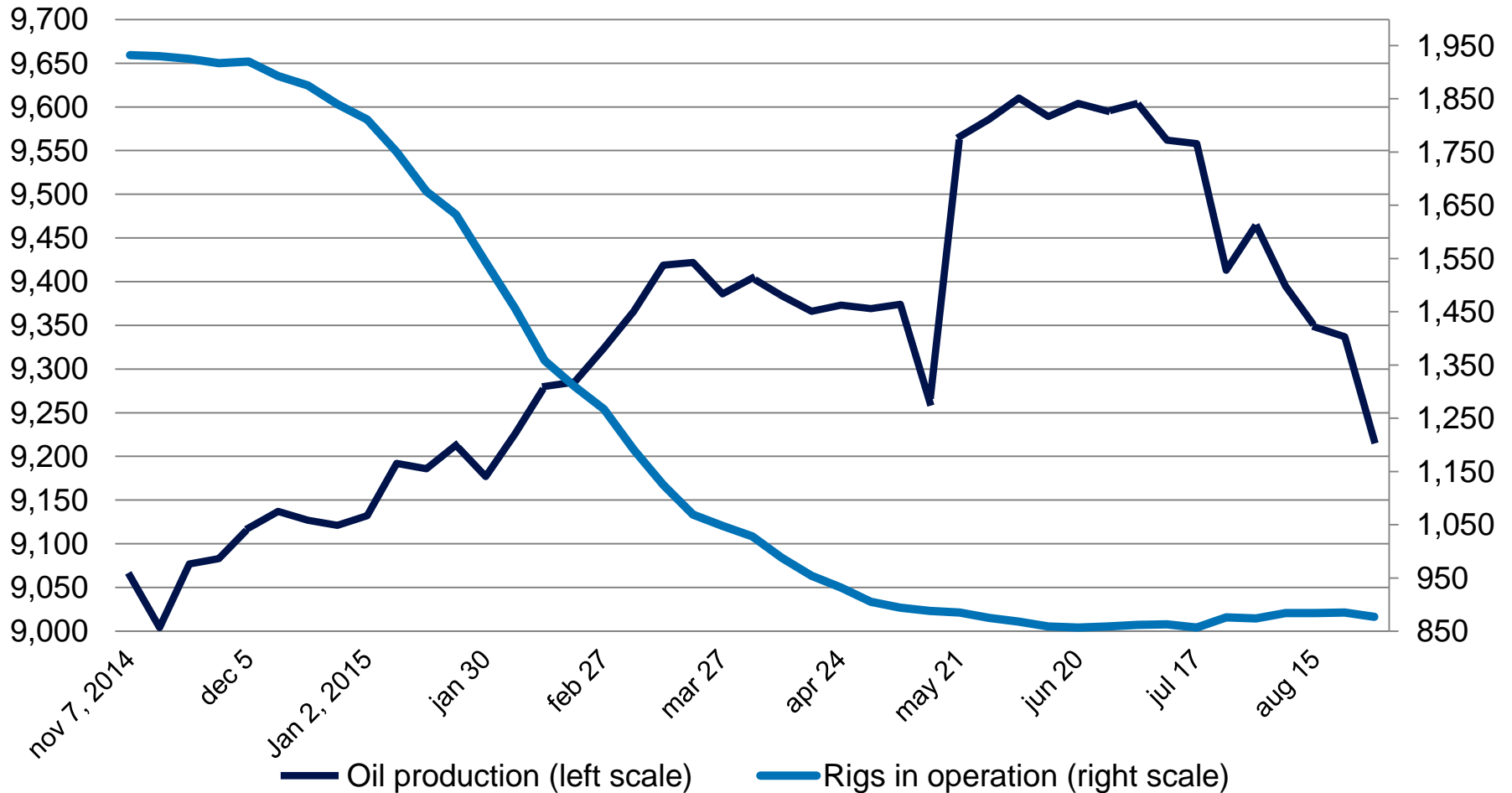
Source: Moody's Analytics.

Global oil prices drivers: why the collapse?

- Supply:
 - Diverse oil supply capacity added since 2010
 - Increased U.S. production a key factor
- Demand:
 - slow growth in the EU, Japan and the BRIC countries
 - Chinese energy demand growth gradually slowing
- Geo-politics:
 - Iran oil coming back on market

U.S. Oil Production and Rig Counts

(000s of barrels per day; number of rigs)

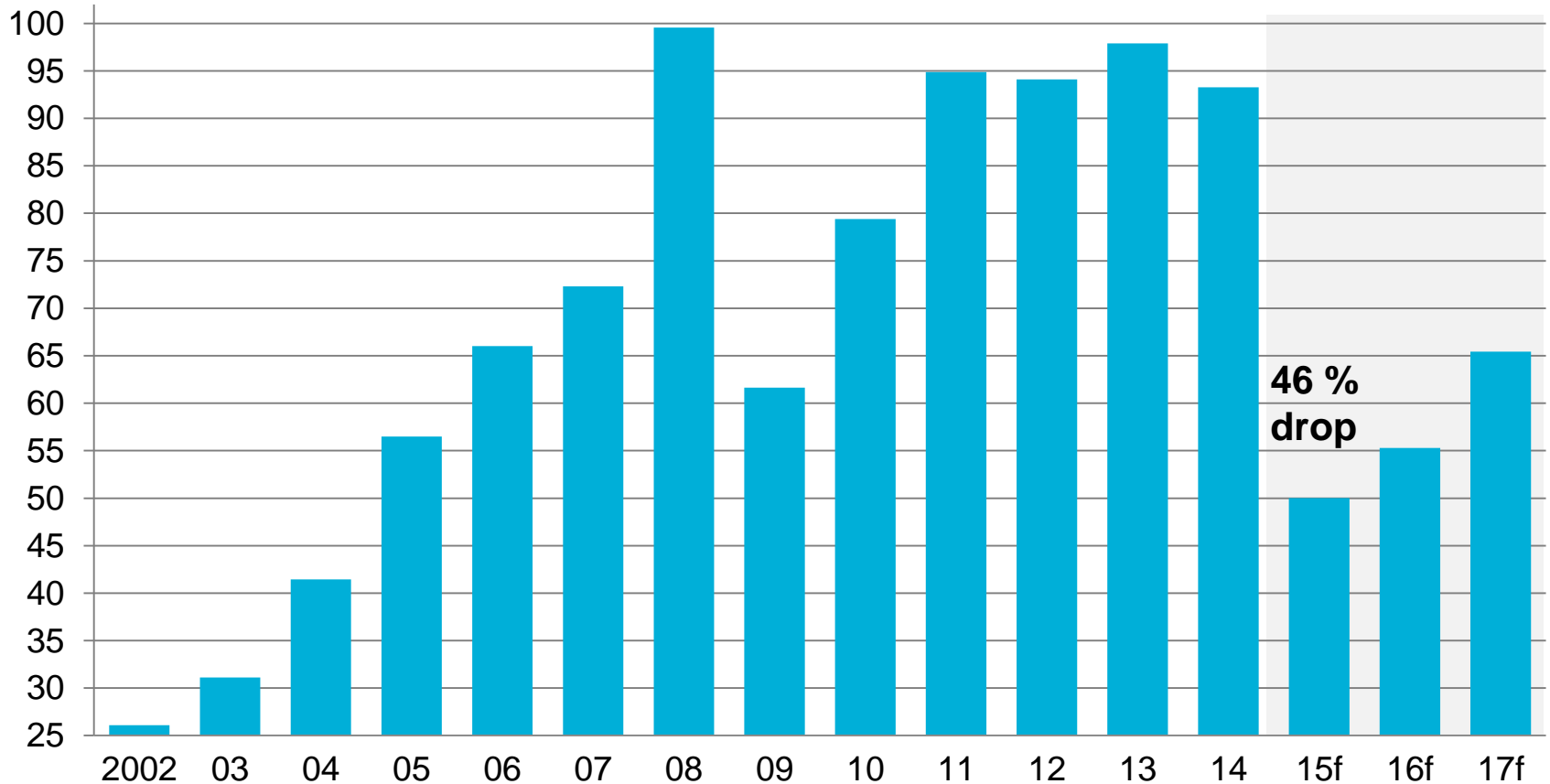


Sources: EIA, Baker Hughes.



Where are oil prices headed?

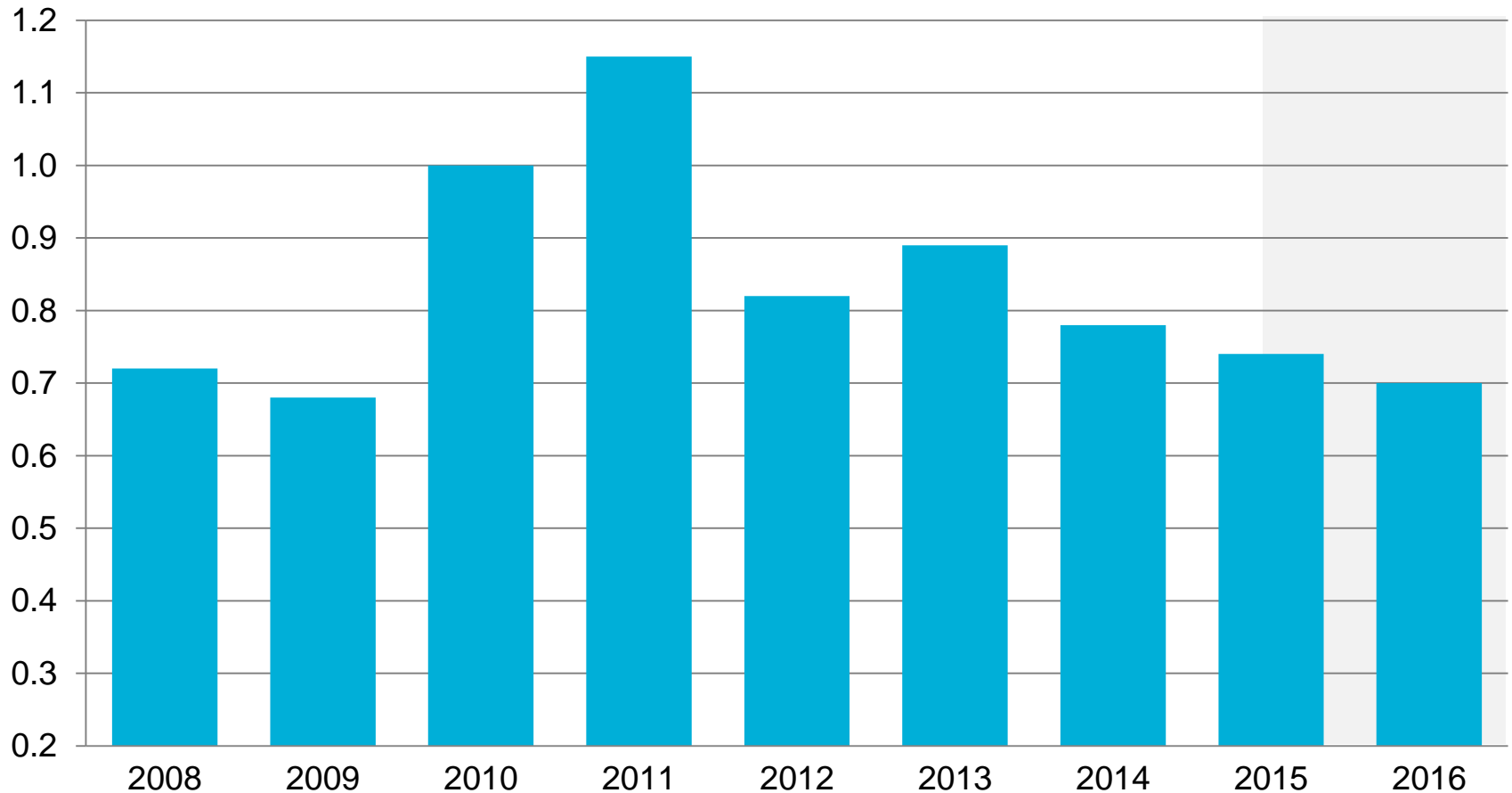
WTI Crude Price, US\$ per barrel



Sources: Bureau of Economic Analysis The Conference Board of Canada.

Metals Price Index

2010=1.0



Source: CBoC.

Losers from Low Oil and Other Commodity Prices

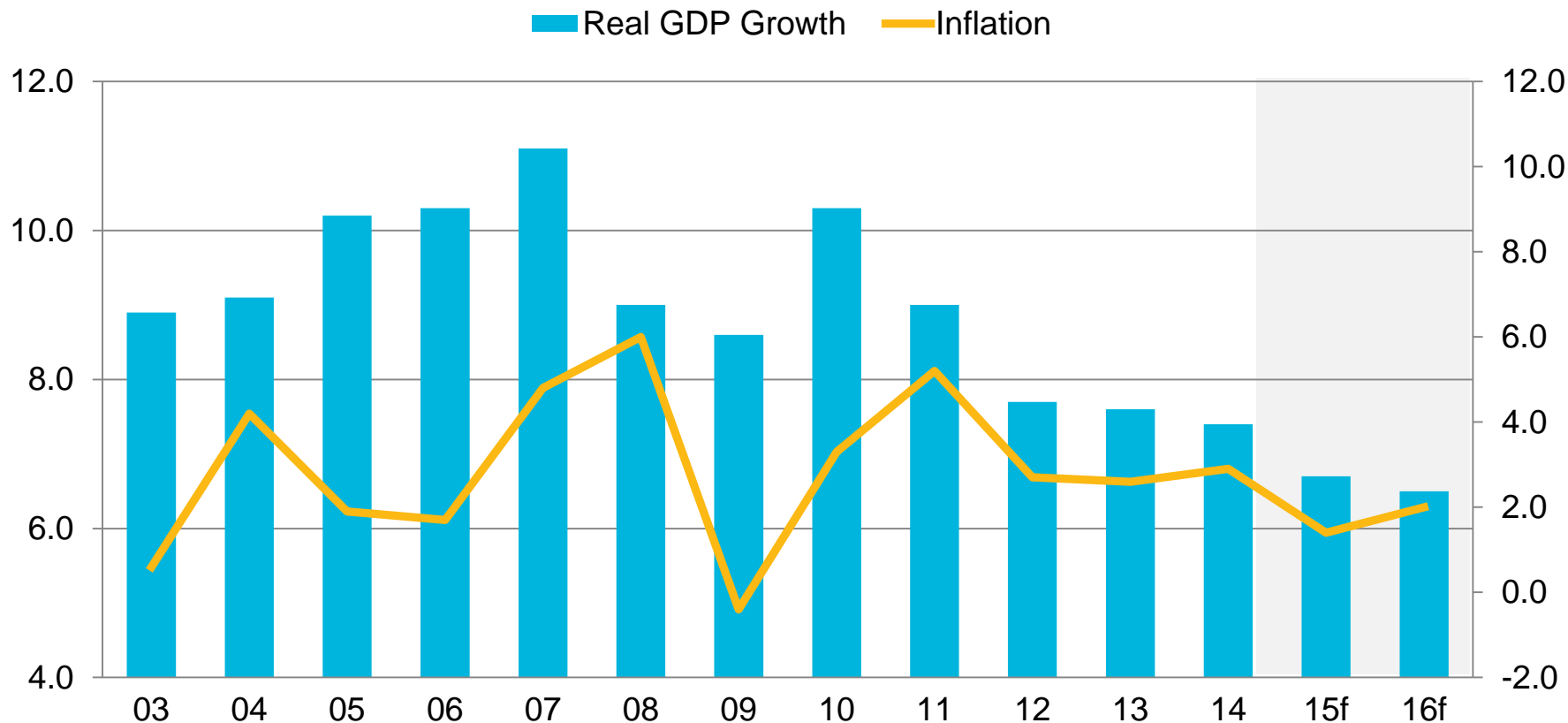
- Brazil – China's slow down plunges economy into recession
- Venezuela – country could default on debt and risks of a complete economic collapse are rising
- Iran – lack of revenue possibly pressured leaders to reach a deal with US on nuclear program in order to ease tough sanctions
- Russia – combination of Western sanctions and low oil prices drives economy into recession
- Canada

Winners from Low Oil and Other Commodity Prices

- US – cheaper oil means more discretionary income although oil producers hurt
- Saudi Arabia – low oil prices will hurt but not as much as competitors
- India – reduce the \$10.5 billion in expenditures on fuel subsidies and divert elsewhere
- China – every \$1 drop in world oil prices saves the government \$2.1 billion that can be used to stimulate demand

China: Real GDP Growth and Inflation

per cent change



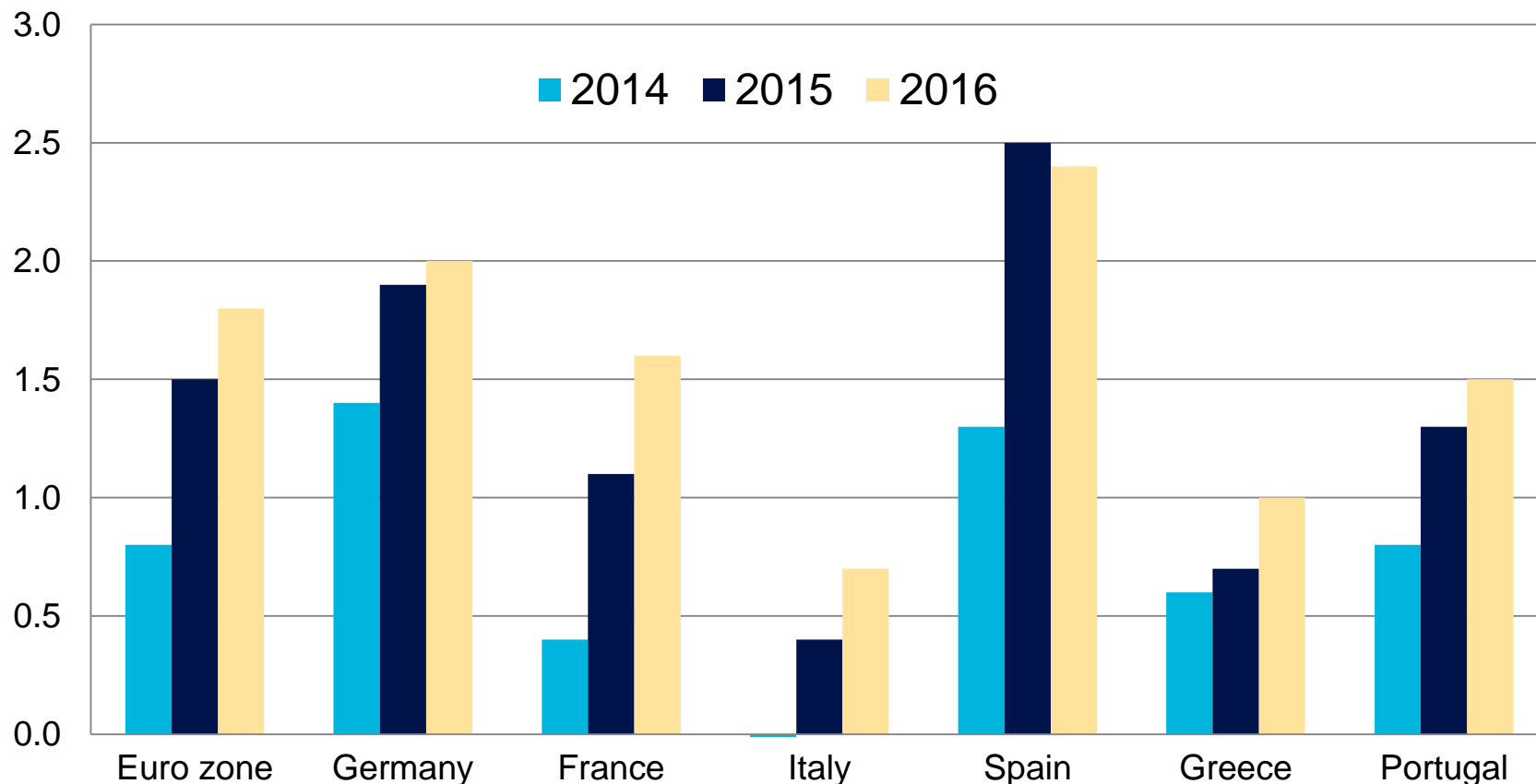
Source: Consensus Economics.

Large Internal Migration Winding Down

- Between 1978 and 2011, 160 million people moved from rural parts of China to cities
- Largest internal migration in world history
- Surging demand for iron, steel cement, copper etc.
- Today 55% of China's 1.4 billion people live in cities versus 18% in 1978
- Less migration today leads to collapse in commodity prices

Sluggish Growth in Western Europe

per cent change, 2014-16, real GDP

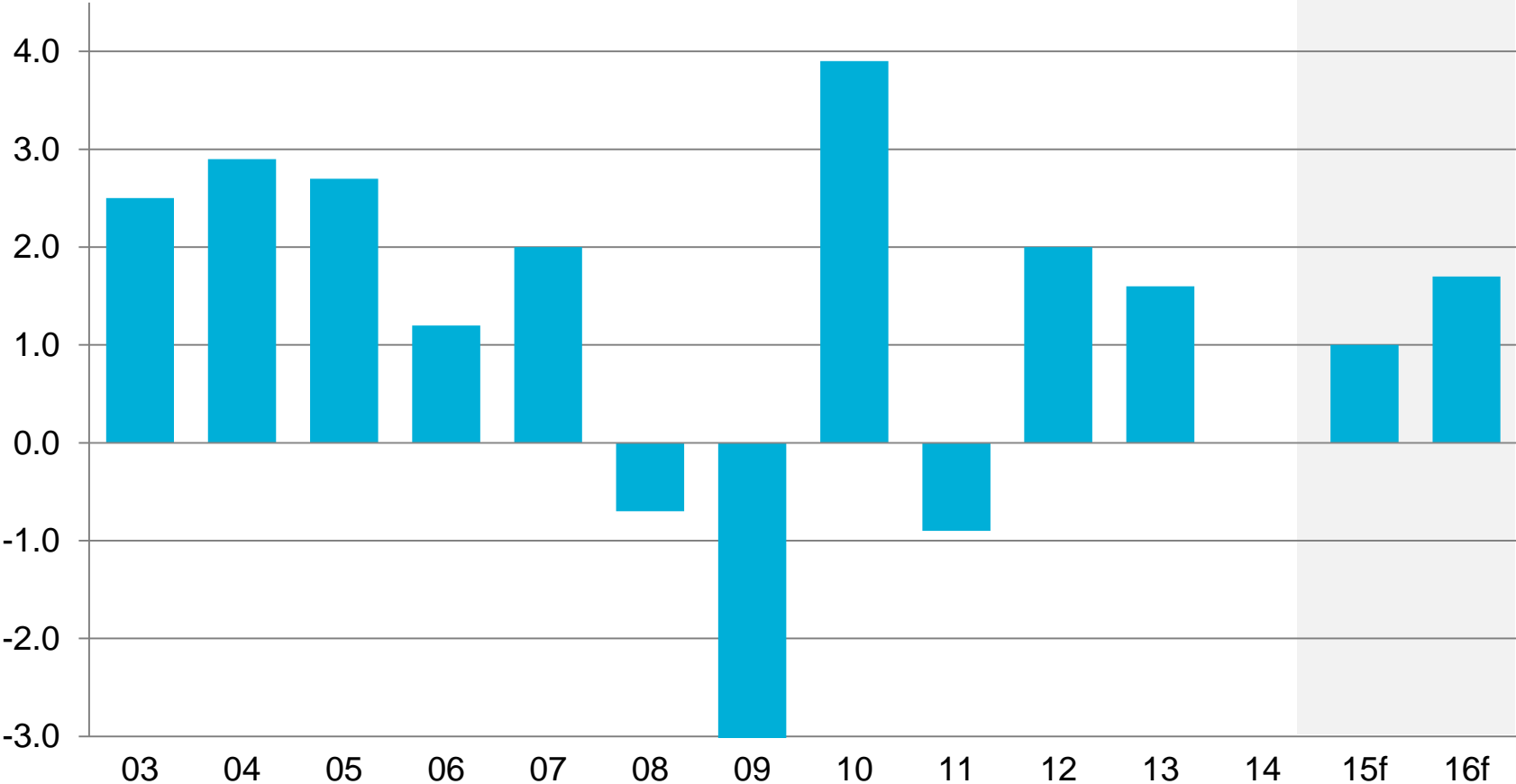


Source: Consensus Economics.



Japan Real GDP Growth

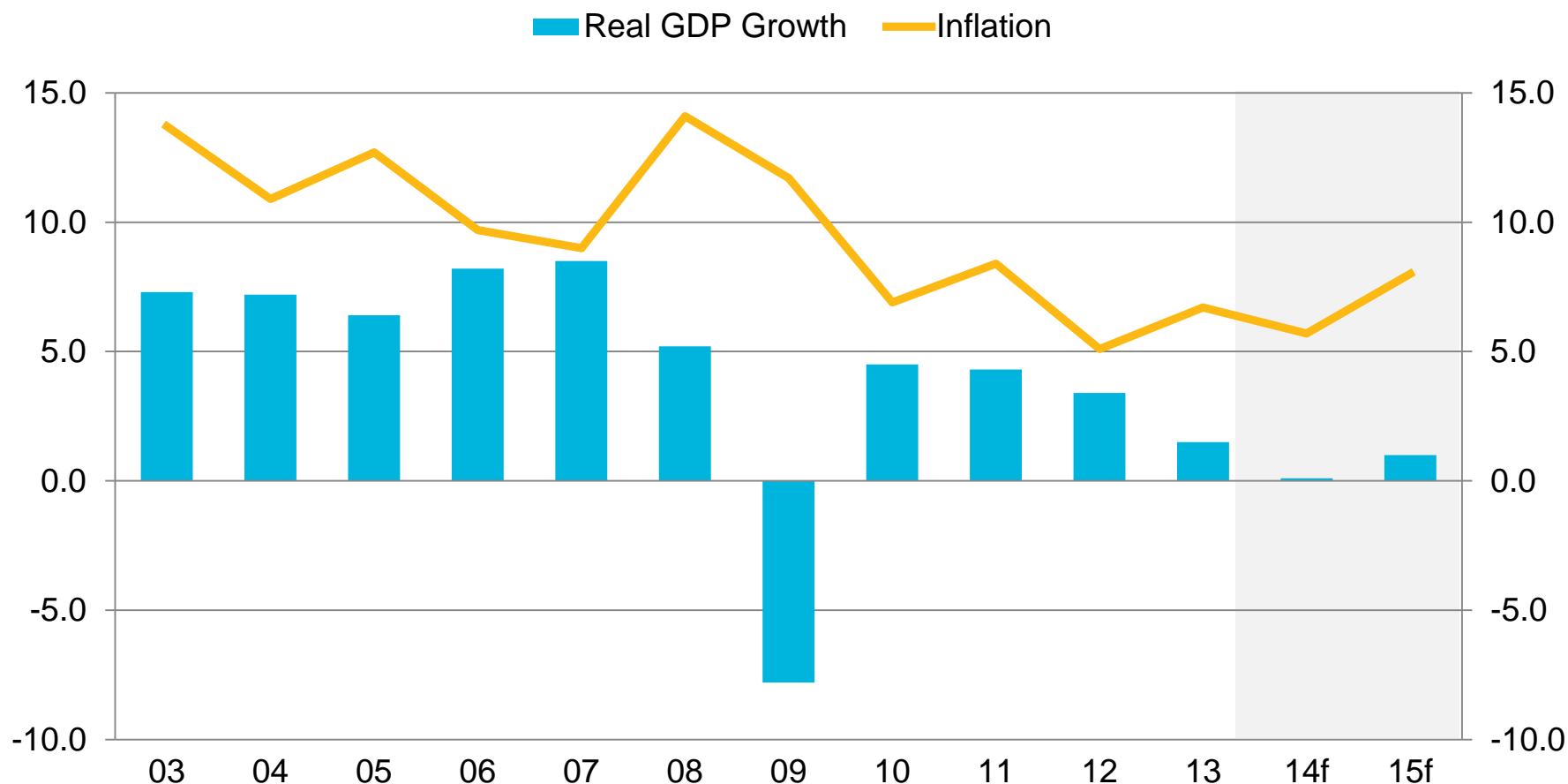
per cent change



Sources: Bureau of Economic Analysis The Conference Board of Canada.

Russia: Real GDP Growth and Inflation

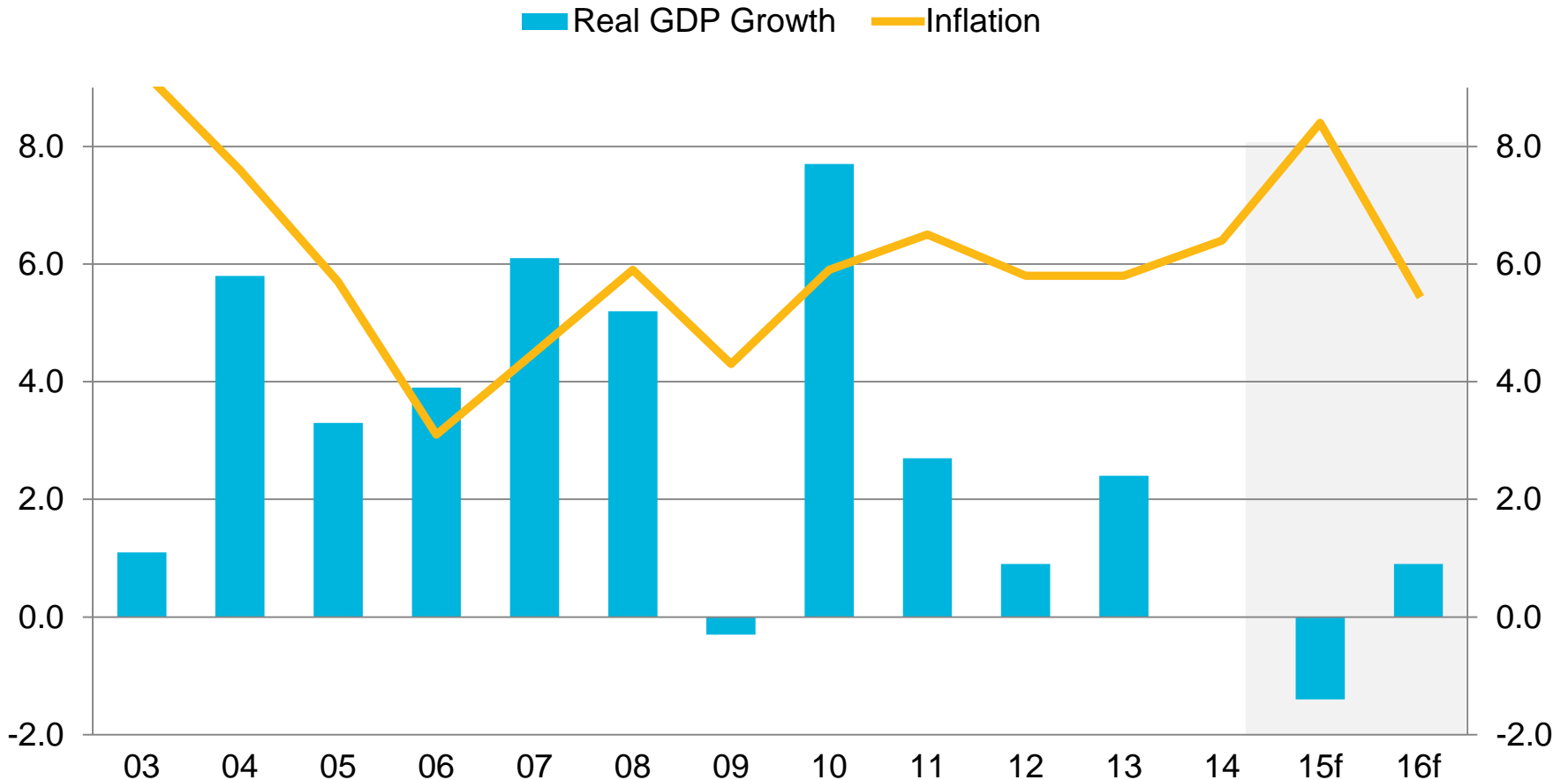
per cent change



Source: Consensus Economics; IMF.

Brazil: Real GDP Growth and Inflation

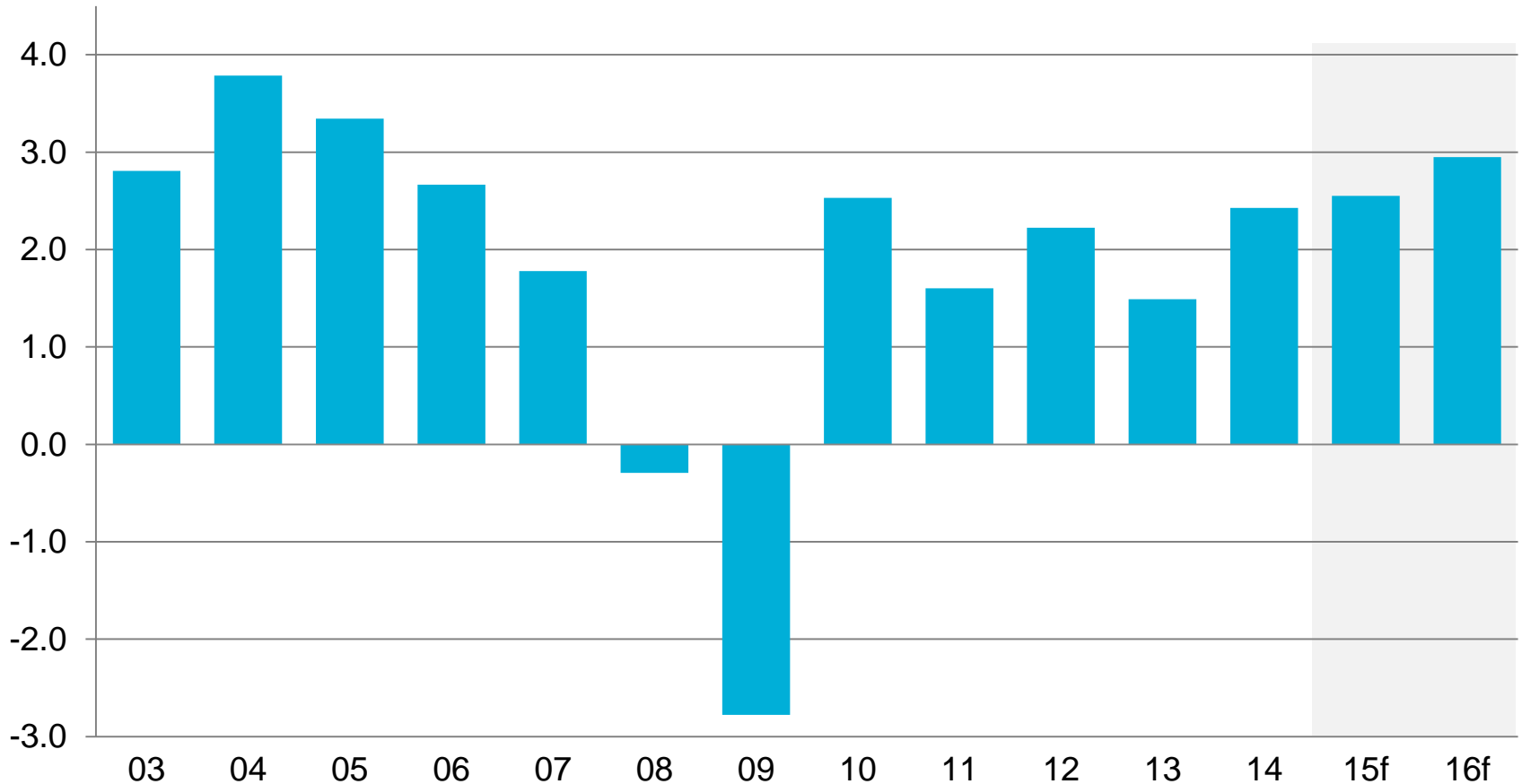
per cent change



Source: Consensus Economics.

U.S. Real GDP Growth

per cent change

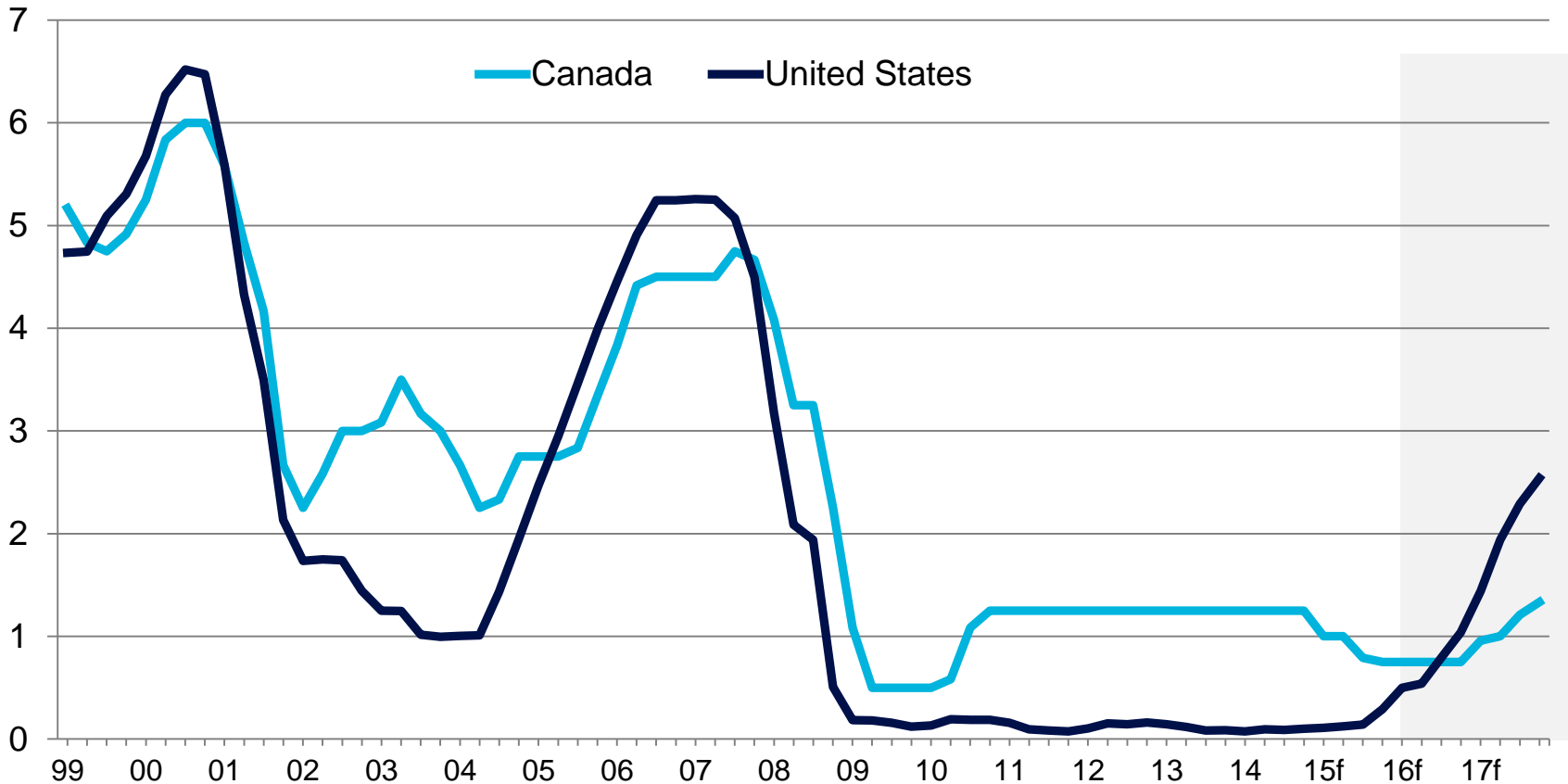


Sources: Bureau of Economic Analysis The Conference Board of Canada.



Short-Term Interest Rates

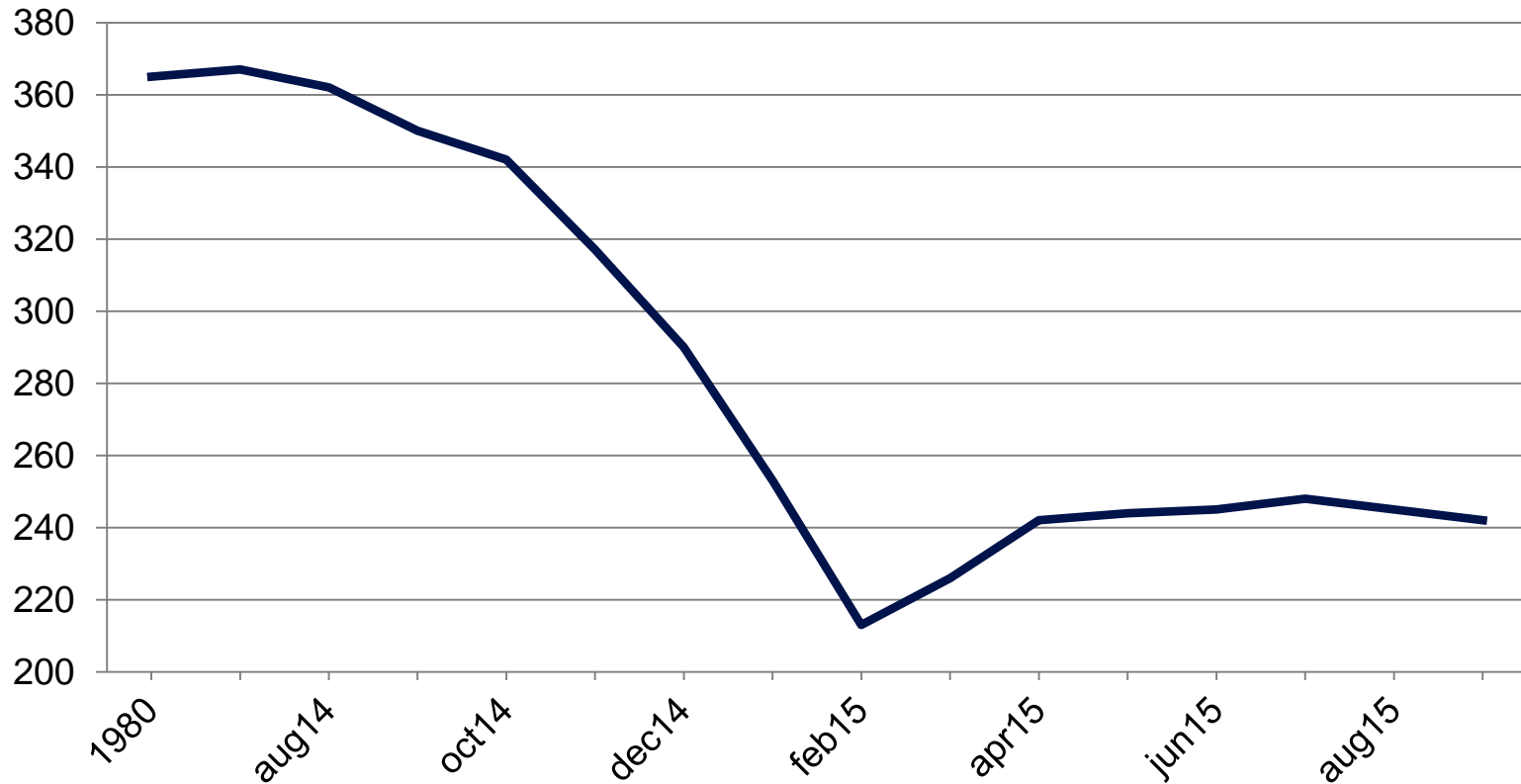
Canadian Bank Rate and U.S. Federal Funds Rate.



Sources: The Conference Board of Canada; Statistics Canada.

US Gasoline Prices

(cents per gallon)



Source: Moody's Analytics



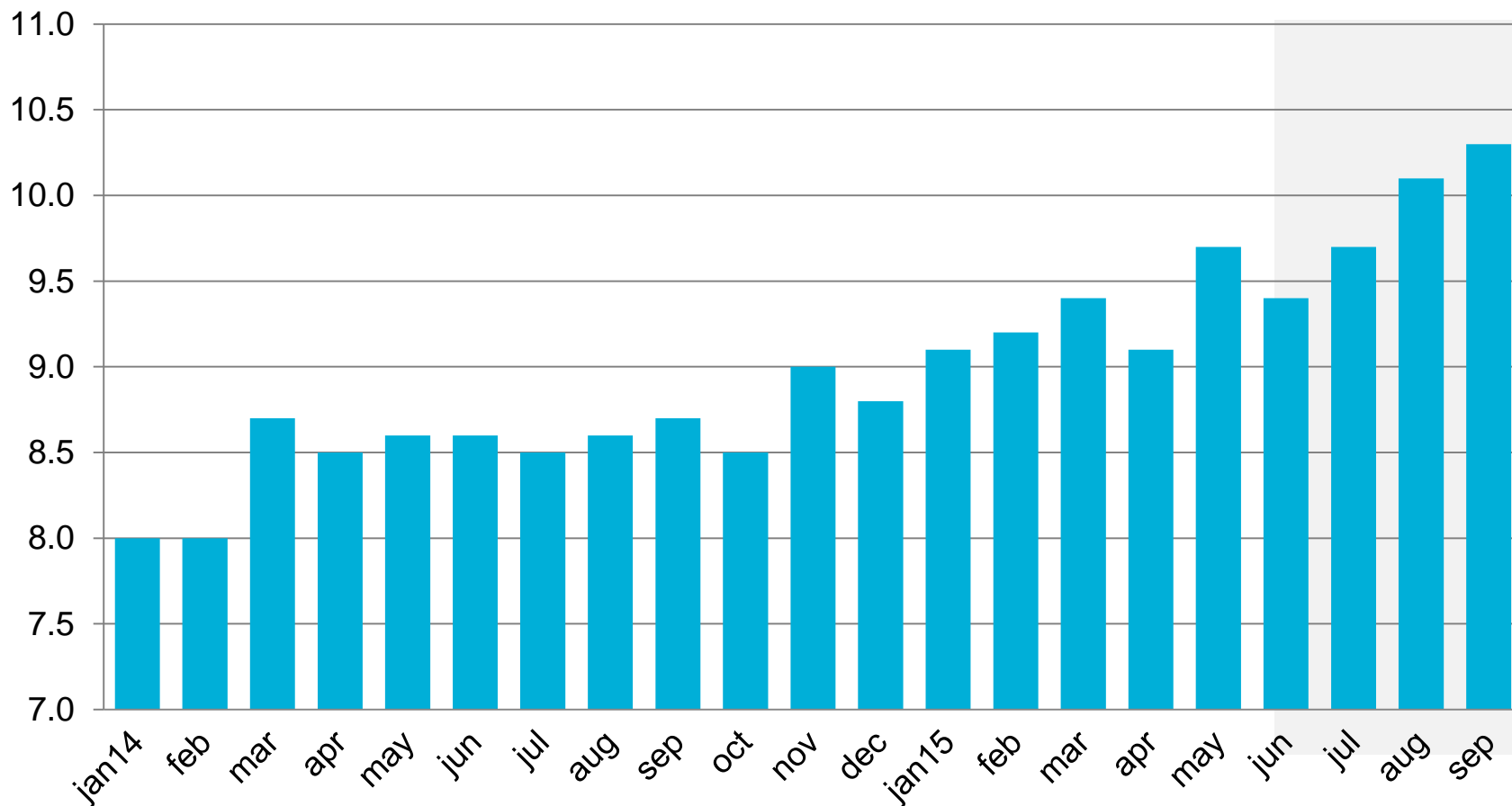
The Conference Board
of Canada

Impact of Low Oil Prices on US

- Consumers get a break – \$767 savings for average family from low gasoline and oil-heating bills
- Big cars are back in fashion
- Retailers get a lift – sales up in electronic, restaurant, clothing and sports outlets

US Light Truck Sales

millions

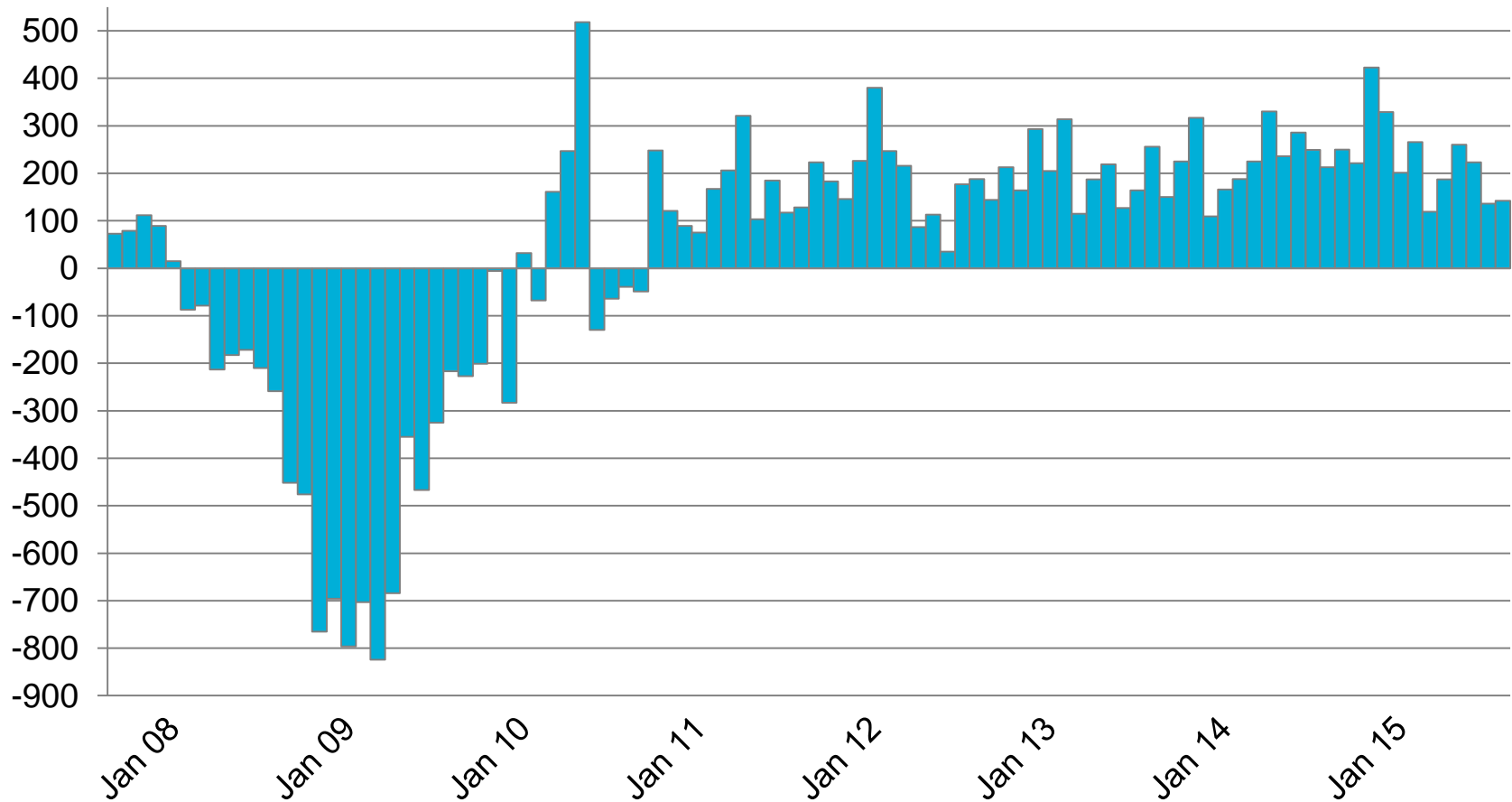


Source: Moody's Analytics.



U.S. Labour Market.

change in U.S. employment, 000s.

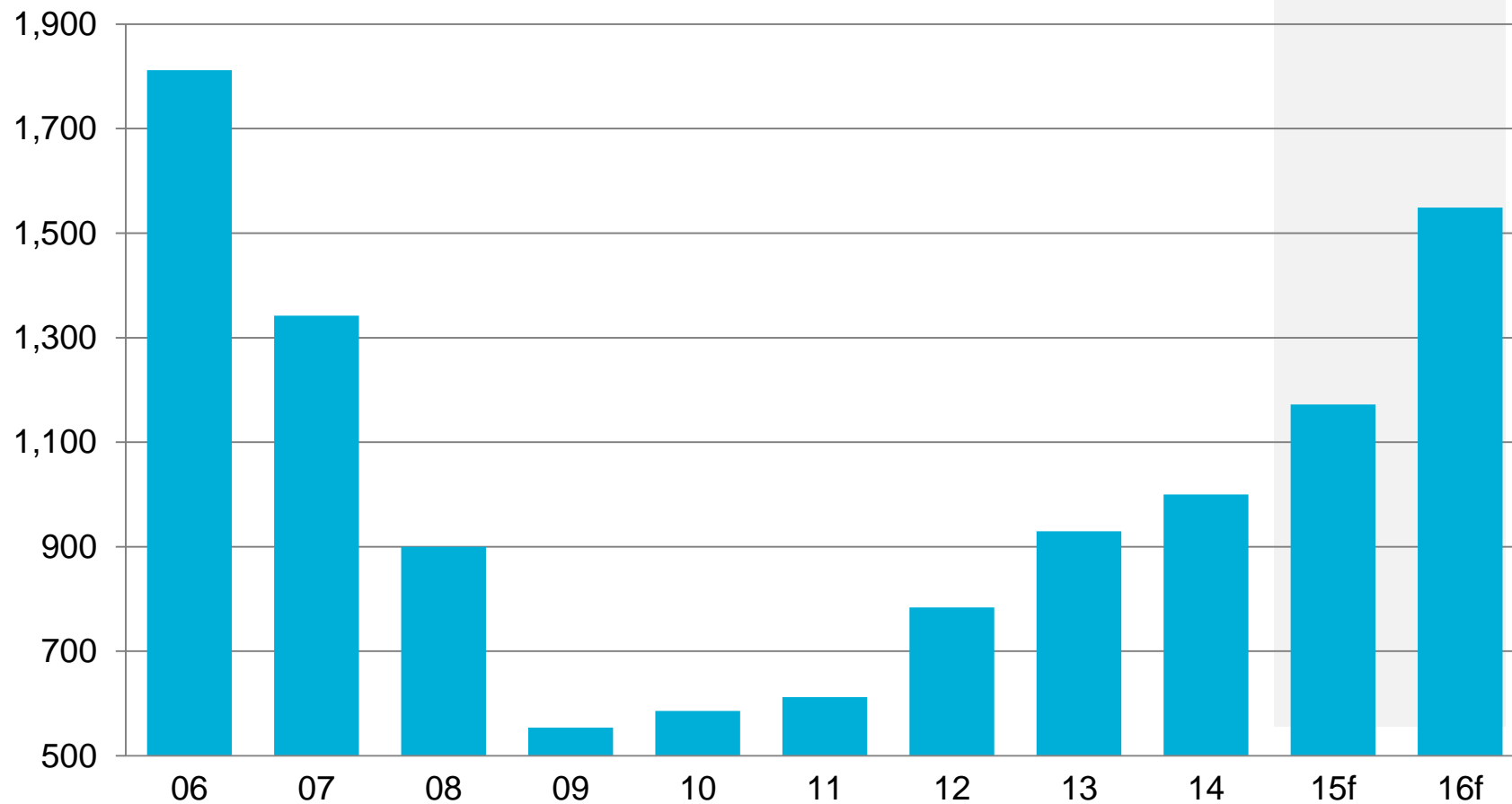


Source: Bureau of Economic Analysis.



U.S. Housing Starts.

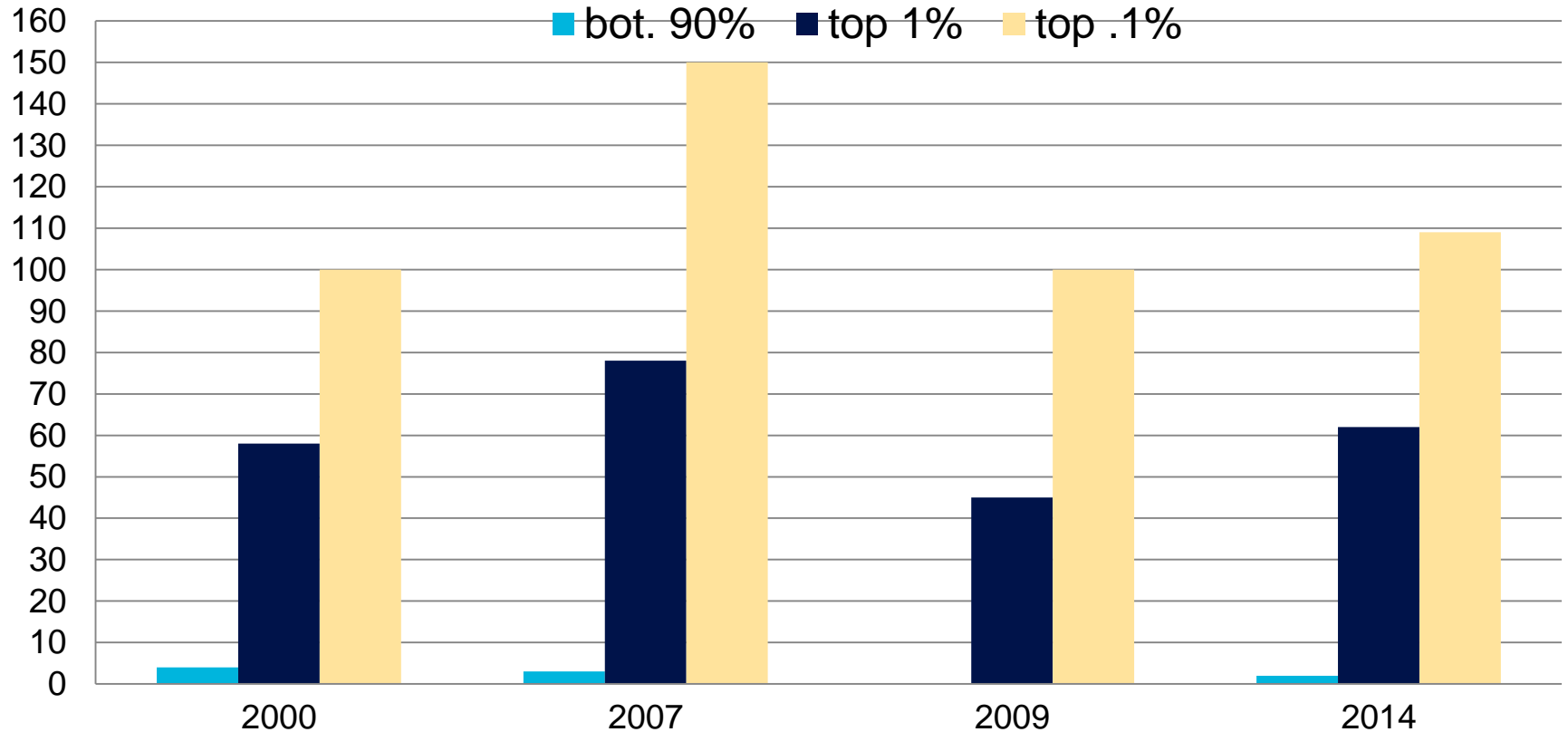
000s



Sources: Bureau of Economic Analysis; The Conference Board of Canada.

U.S. Income Inequality

per cent change in real income from 1993 (capital gains excluded)

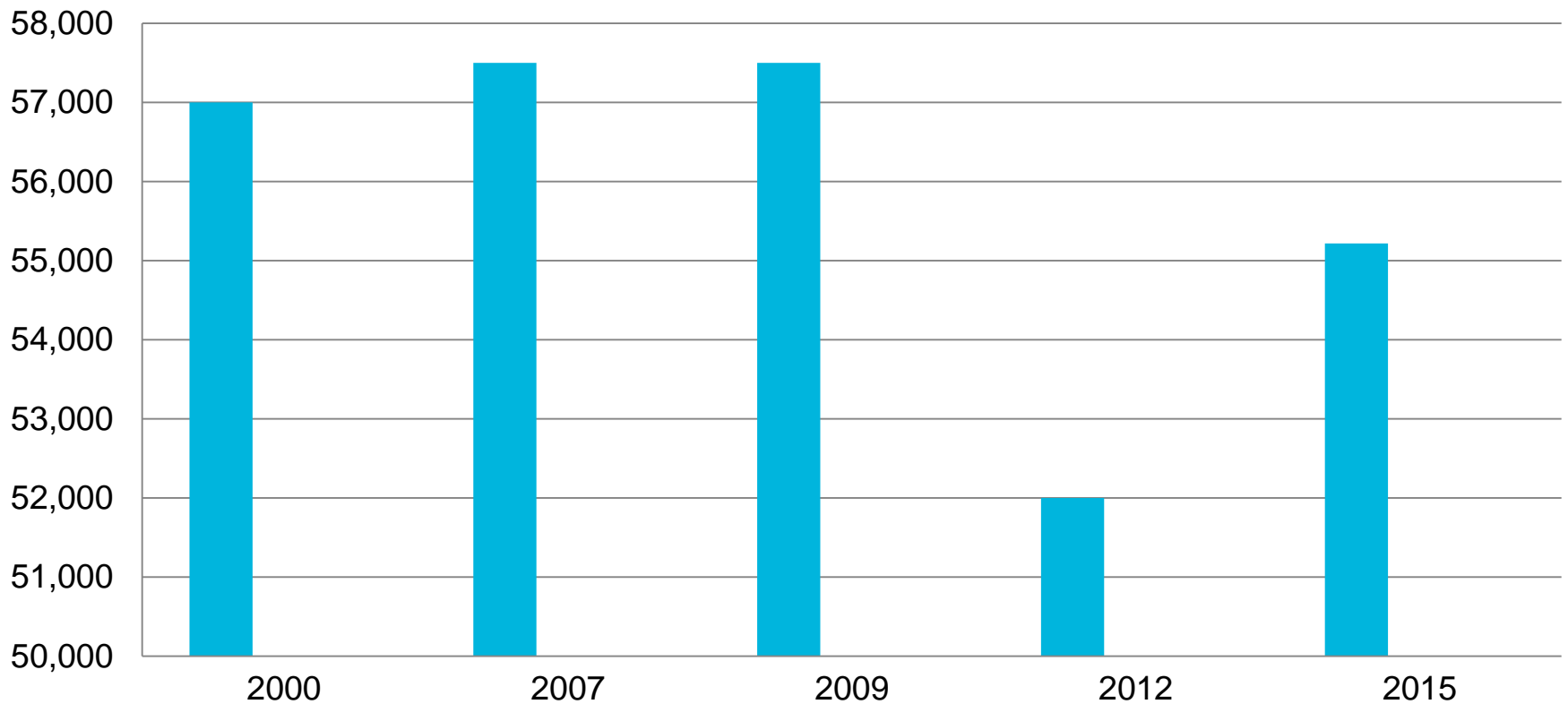


Sources: Piketty and Saiz.



Stagnant U.S. Incomes

real median income



Source: Sentier Research.

Sectors with Biggest Job Losses since 2007

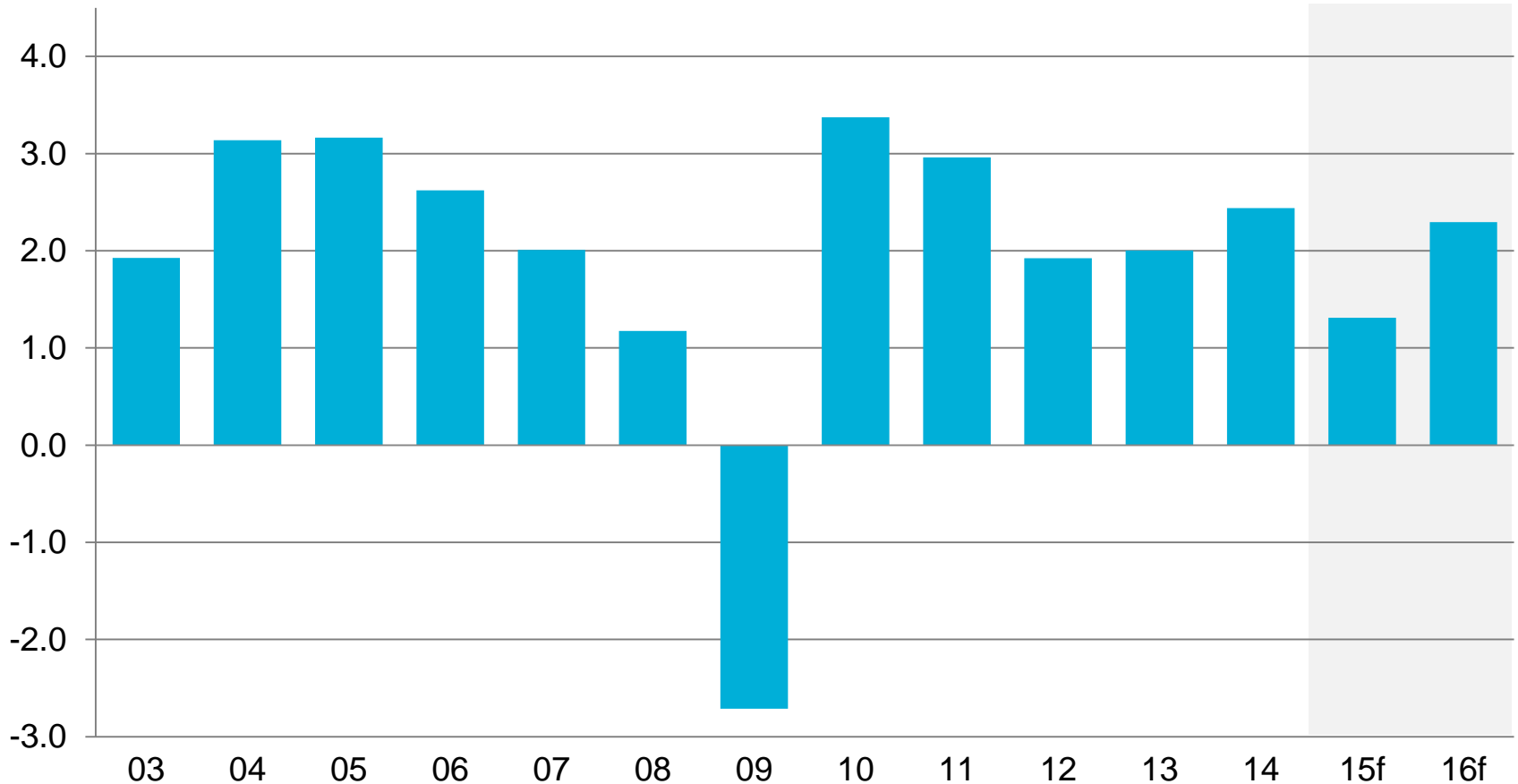
- Plastics and rubber manufacturers
- Motor vehicle manufacturers
- Apparel manufacturers
- Building contractors

Sectors with Biggest Job Gains since 2007

- Services for the elderly and disabled
- Amusement parks and arcades
- Restaurants
- Department stores

Canada's Real GDP Growth

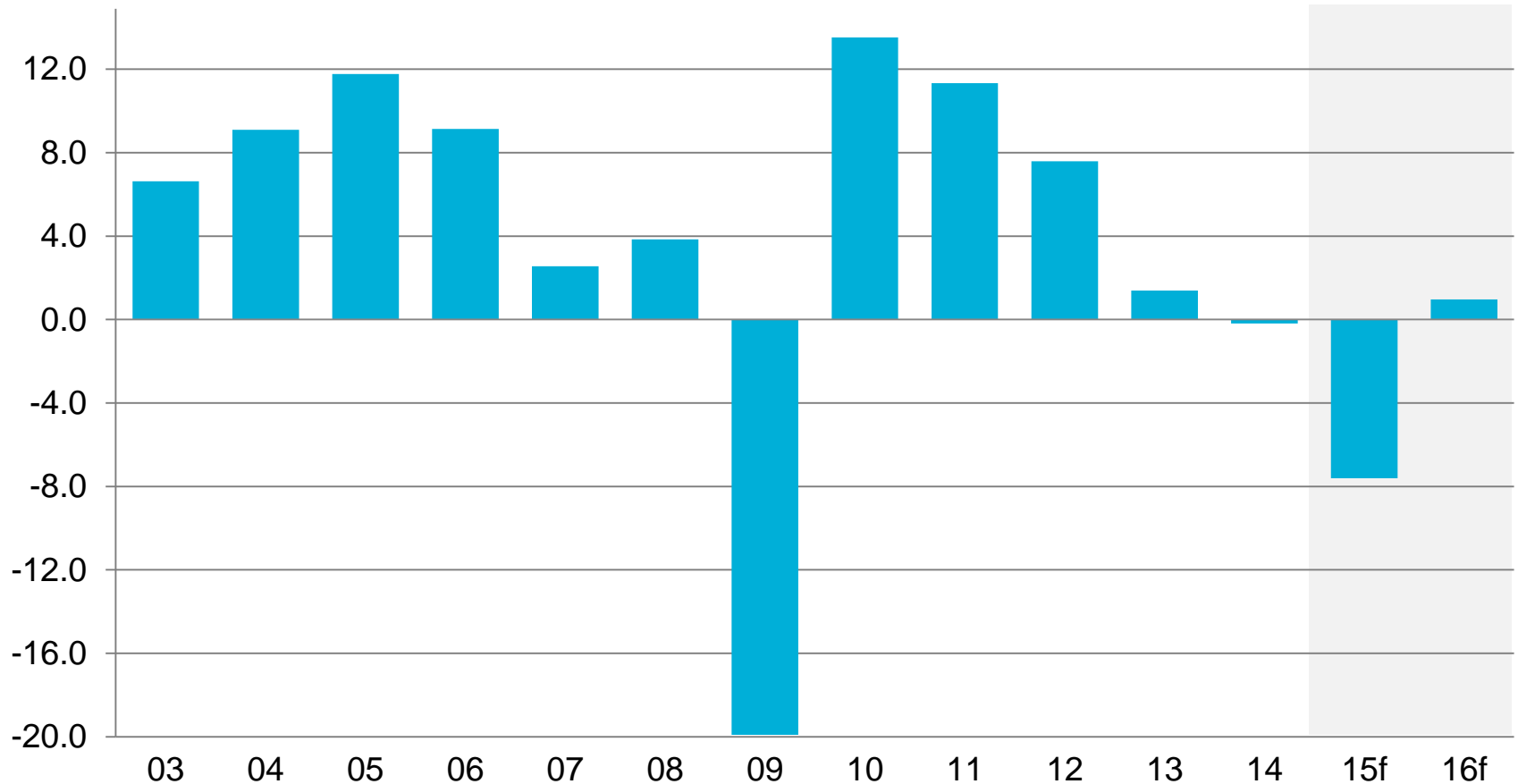
per cent change



Sources: Statistics Canada; The Conference Board of Canada.

Real Business Investment

non-residential structures and machinery, per cent change

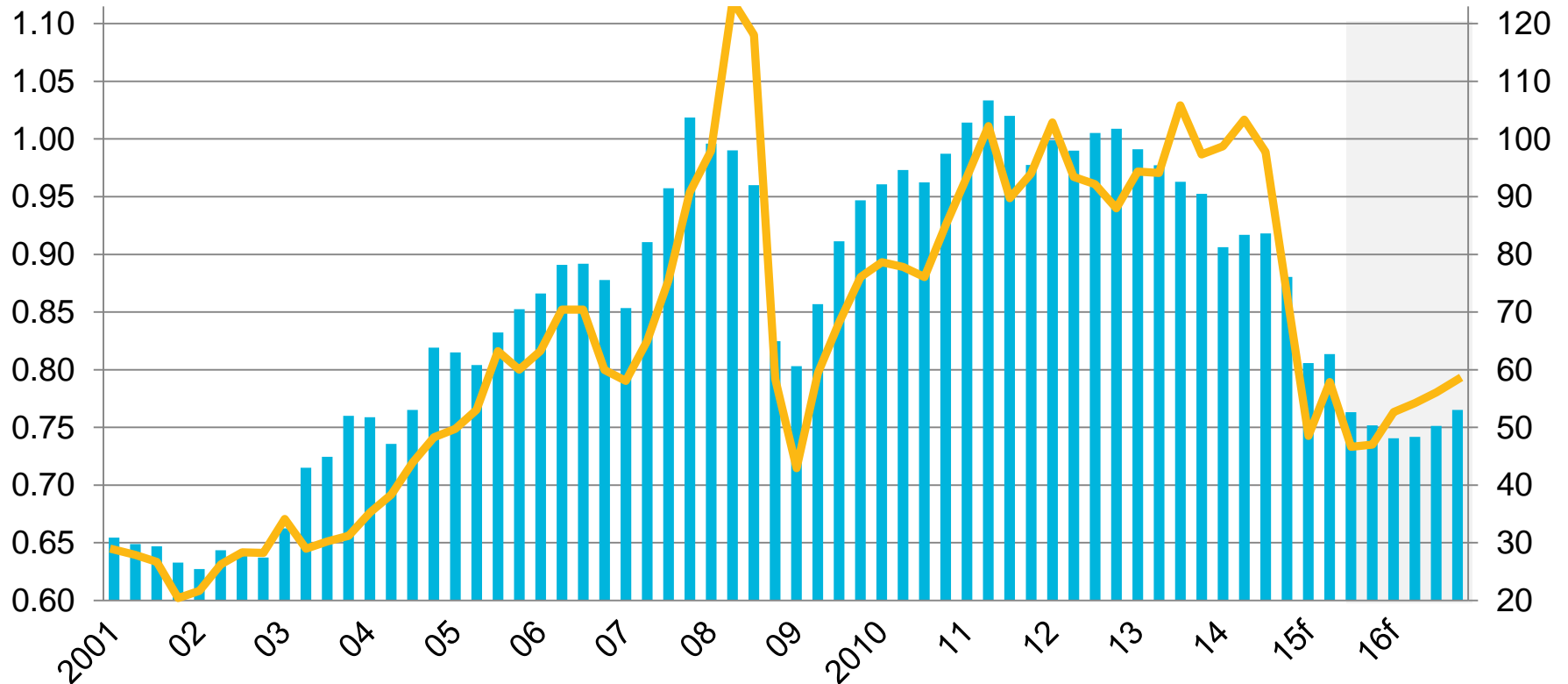


Sources: Statistics Canada; The Conference Board of Canada.

The Loonie and the Oil Price

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

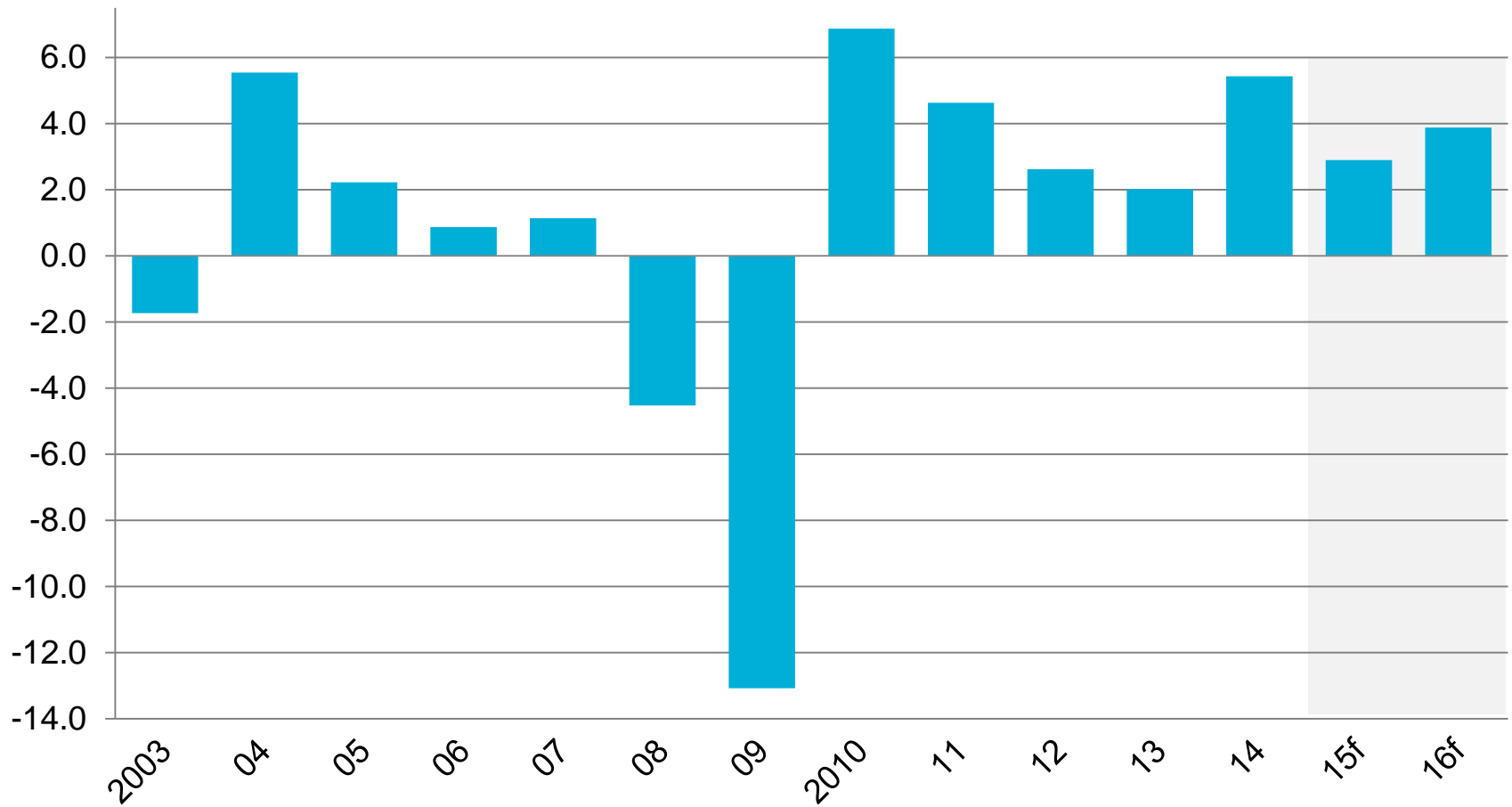
■ Dollar (left) — Oil Price (right)



Sources: The Conference Board of Canada; U.S. EIA; Statistics Canada.

Export Volumes

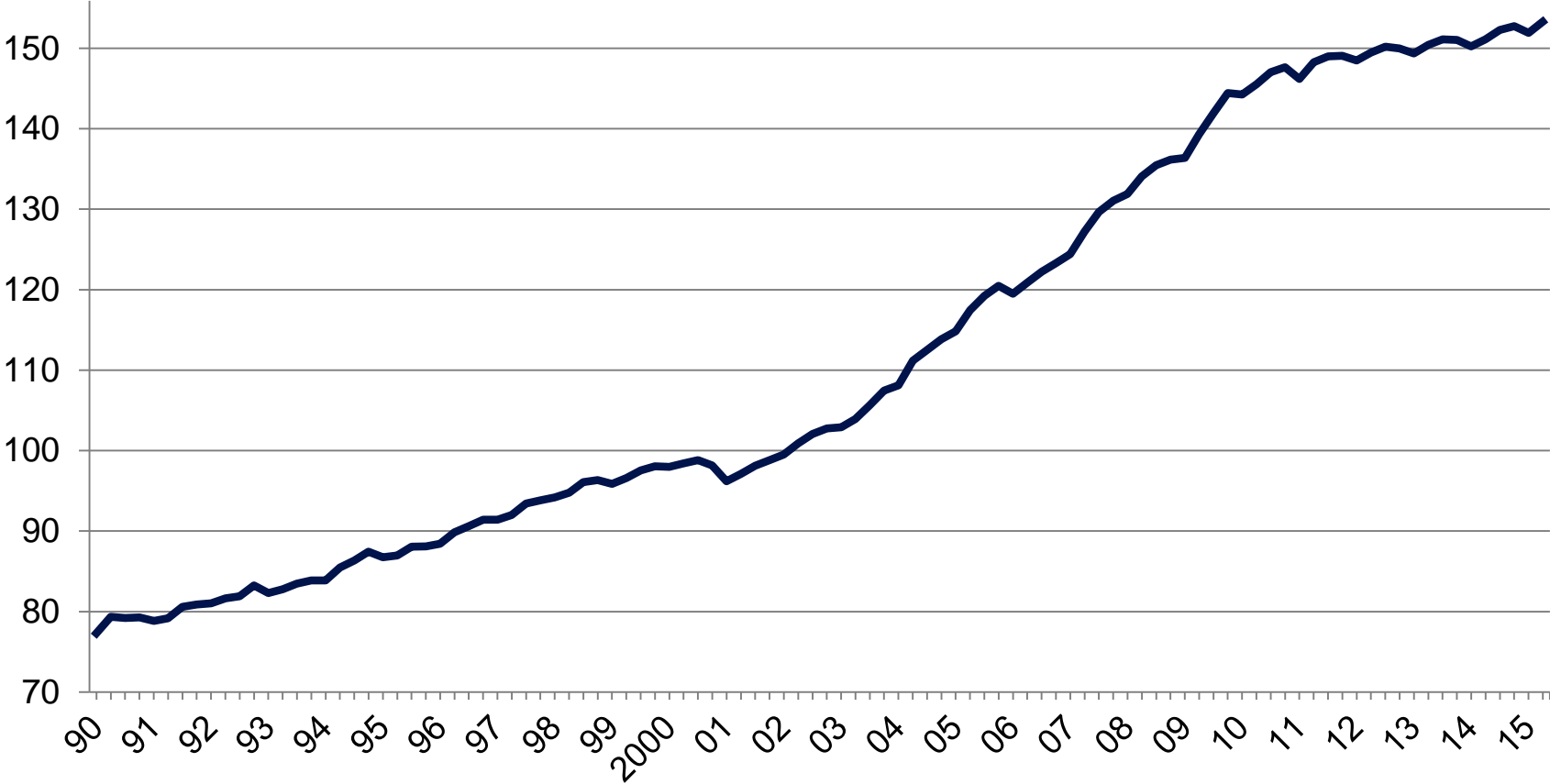
per cent change



Sources: Statistics Canada; The Conference Board of Canada.

Total Consumer & Mortgage Credit (Debt) as Per Cent of Disposable Income

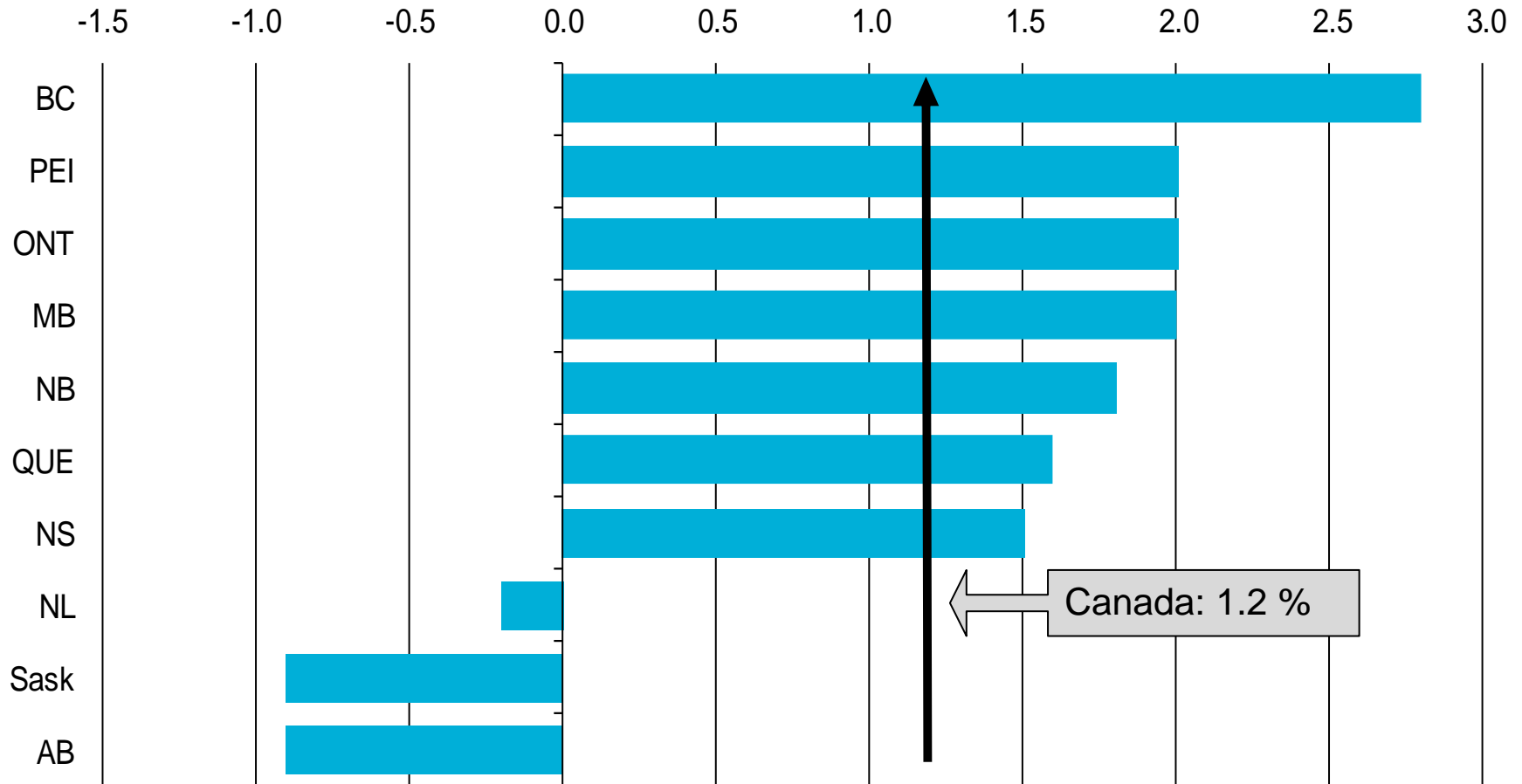
quarterly, 1990Q1 2015Q2



Source: Statistics Canada.

2015 Real GDP by Province.

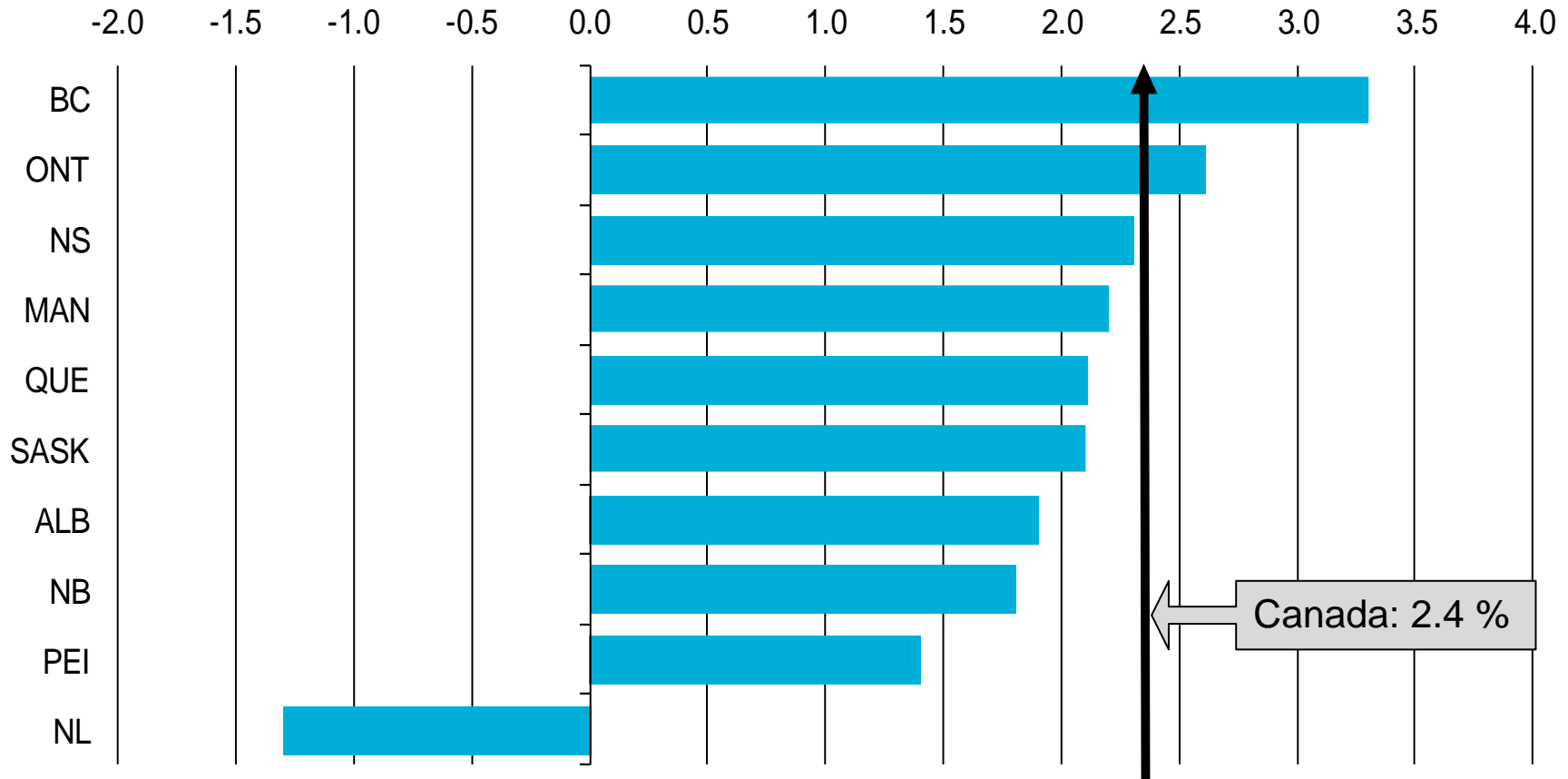
per cent change, basic prices, \$2007.



Sources: The Conference Board of Canada; Statistics Canada

2016 Real GDP by Province.

per cent change, basic prices, \$2007.



Sources: The Conference Board of Canada; Statistics Canada

2016 Tourism Outlook - Vancouver

Greg Hermus

Associate Director, The Conference Board of Canada



Agenda

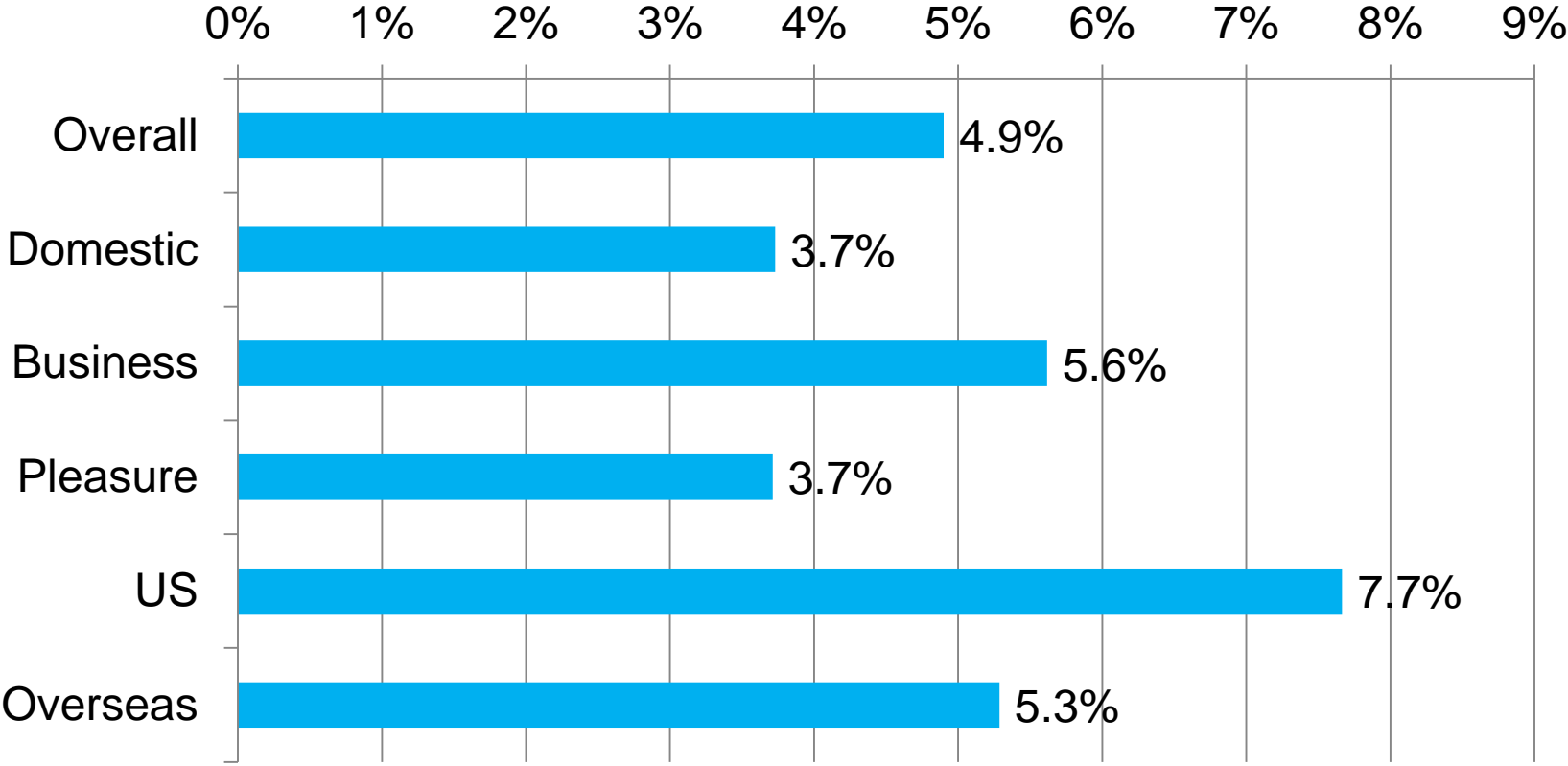
- Recent Tourism Performance (2015)
- Project Tourism Performance (2016 and beyond)
 - Methodology/Assumptions/Concerns
 - Results
 - Overall results as well as highlighting;
 - Domestic Growth Prospects
 - US Growth Prospects
 - Overseas Travel Prospects

Tourism – 2015 Started with Big Expectations

- The weaker exchange rate and low oil prices (gas prices) were expected to generate a significant boost to domestic pleasure travel and international travel to Canada.
- On the other hand, declines in corporate profits and business confidence levels restricted domestic business travel, particularly in regional markets (AB, SK and NL).
- While BC was fortunate to get good weather early on, tourism activity in many parts of the country got off to a slow start thanks to the long cold winter.

Tourism Growth – Vancouver (2015)

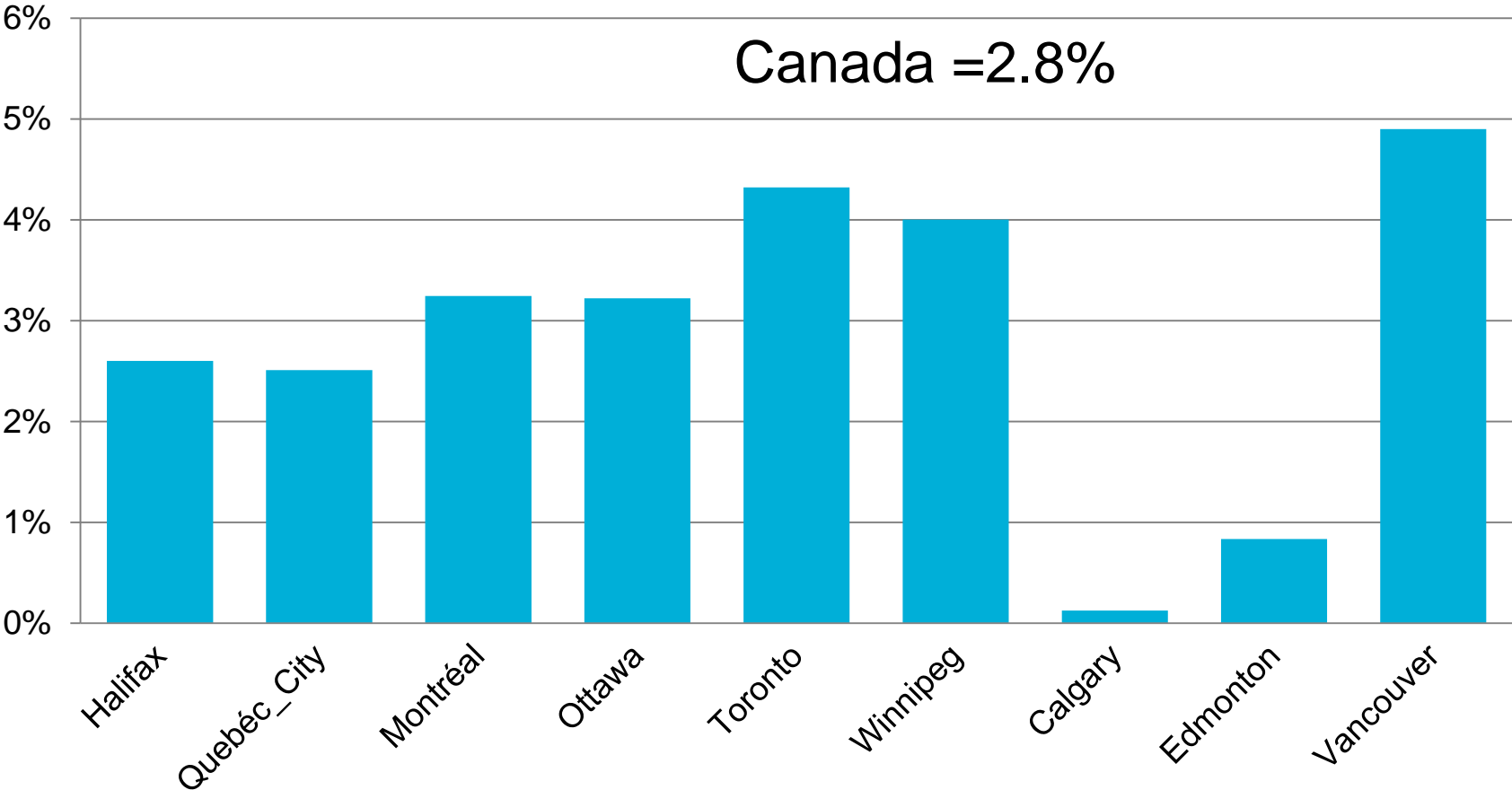
% Change in Overnight person-visits (2015/2014)



Sources: Statistics Canada; The Conference Board of Canada.

Tourism Growth Projections (2015)

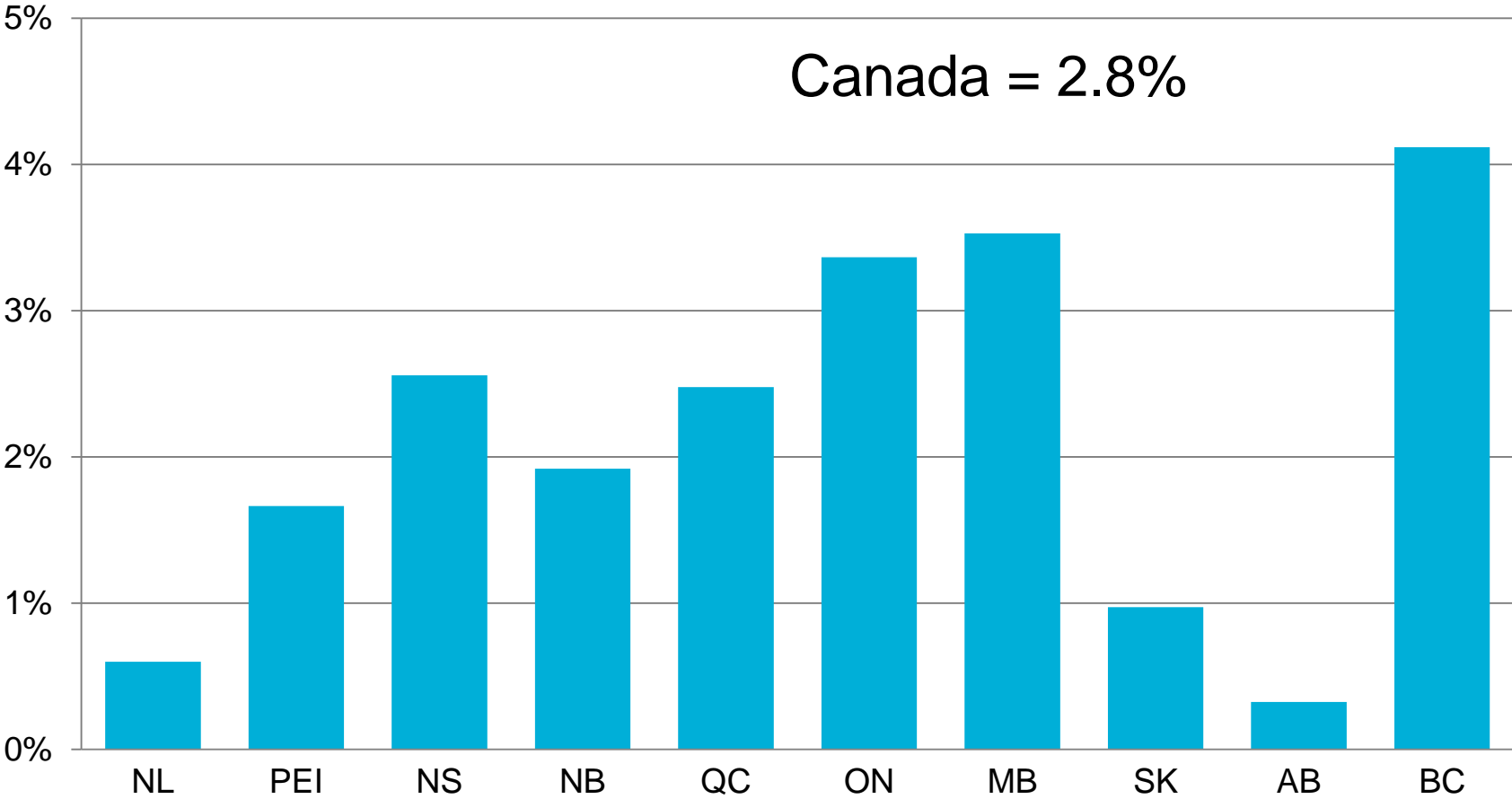
% Change in Overnight person-visits (2015 vs. 2014)



Sources: Statistics Canada; The Conference Board of Canada.

Tourism Growth Projections (2015)

% Change in Overnight province-visits (2015 vs. 2014)



Sources: Statistics Canada; The Conference Board of Canada.

Methodology Used to Establish Forecasts

- Tourism forecast originates from economic drivers (GDP, disposable income, employment, exchange rates, prices, etc.)
- Various non-economic factors are also considered (the role of air capacity, new attractions, infrastructure or major events, specific travel related issues/costs and consumer confidence)
- Consider the importance of various geographic/market segments to the performance for each region

Air Capacity

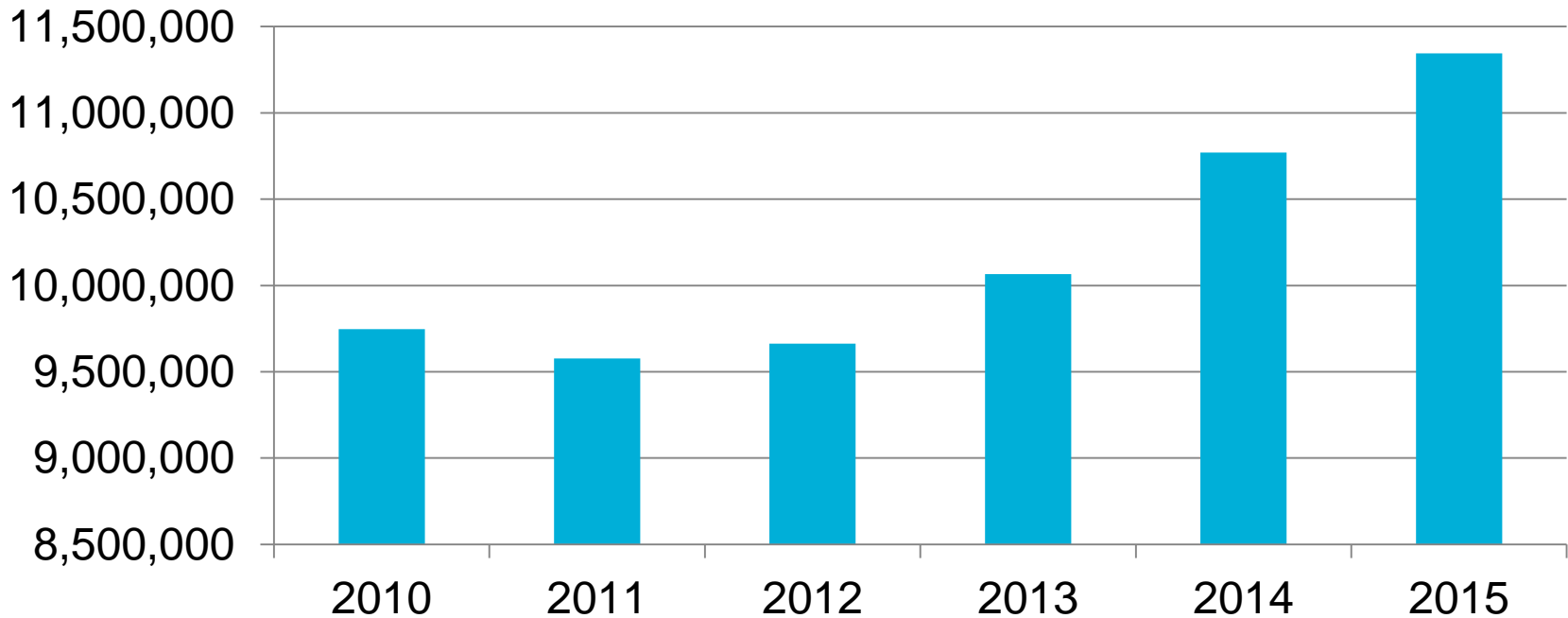
- Early look to 2016 suggests continued growth in domestic air capacity (approx. 6%). Strongest growth from Saskatchewan, Alberta, Ontario, Quebec and within B.C.
- Potential more modest growth anticipated (based on early indications) for direct air capacity from the U.S. (3%)
Strongest growth for travel from Texas, Washington, Utah, Nevada, Hawaii, Alaska and Arizona.
- Direct air capacity from overseas is also projected to expand sharply (8%), particularly for some overseas markets incl. China, Taiwan, France, S. Korea, Mexico (incl. Aeromexico), New Zealand and U.K. (WestJet)

Direct Air Capacity – Domestic

(Non-stop seat capacity to B.C., 2010-2015)

2015 = 5.3%

2016 = 6.0%?



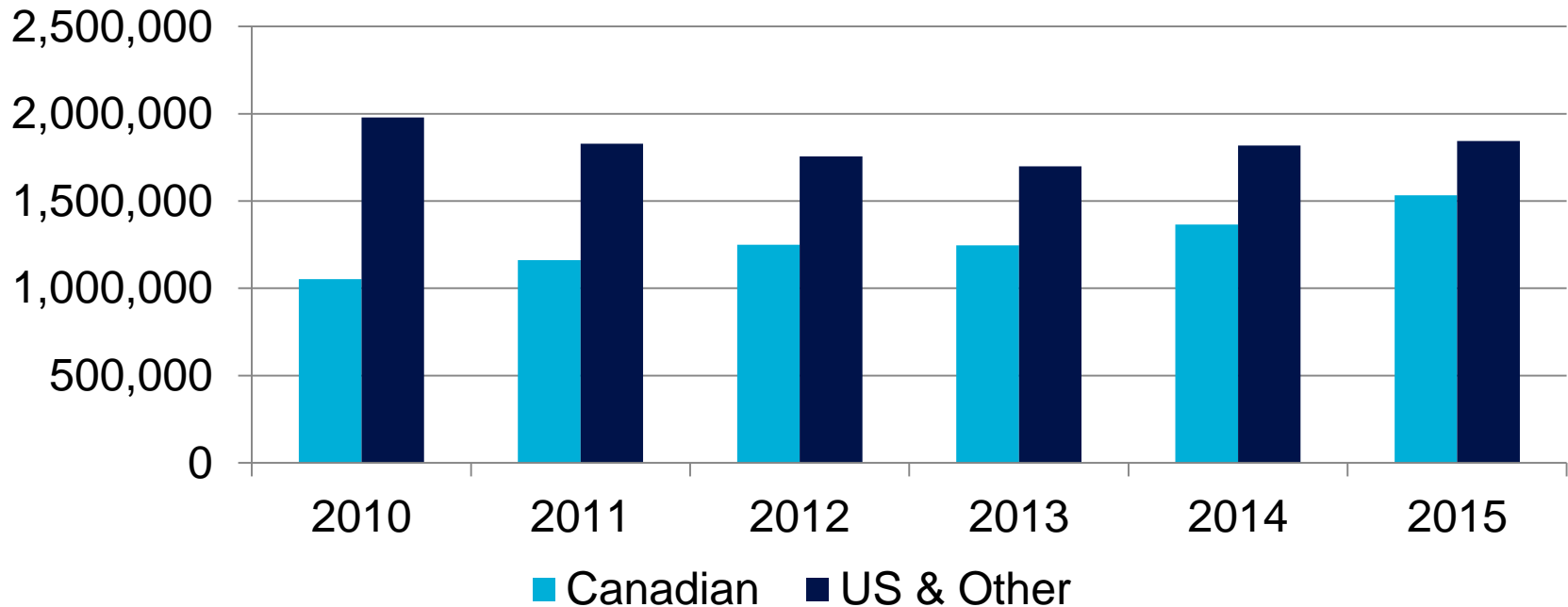
Sources: Statistics Canada; The Conference Board of Canada.

Direct Air Capacity – US

(Non-stop seat capacity to B.C., 2010-2015)

2015 = 6.1%

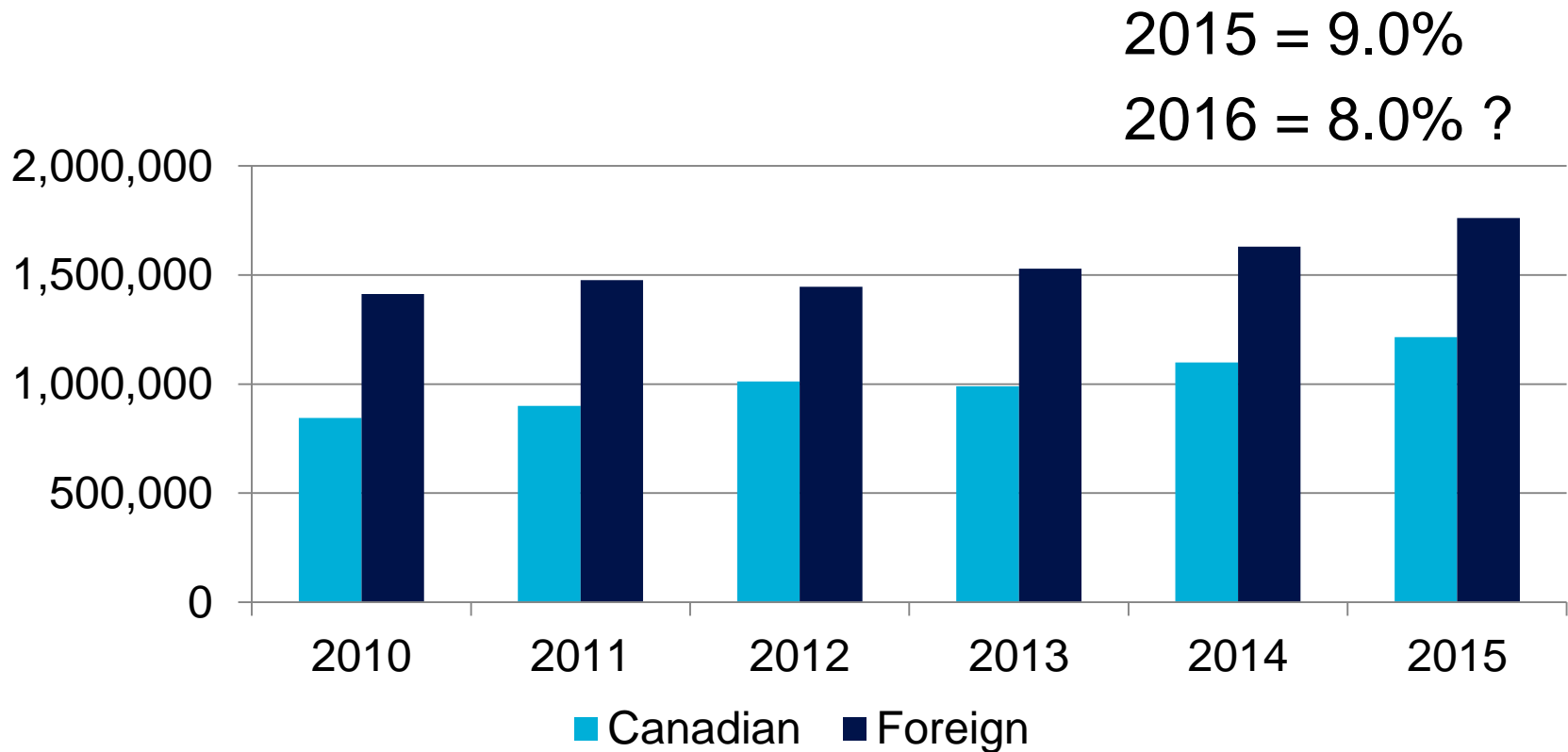
2016 = 3.0% ?



Sources: Statistics Canada; The Conference Board of Canada.

Direct Air Capacity – Overseas

(Non-stop seat capacity to Canada, 2010-2015)



Sources: Statistics Canada; The Conference Board of Canada.

Domestic Pleasure Travel - Issues

- While we don't expect further depreciation in \$CDN still expect some lagged effects of the weaker dollar to prop up domestic pleasure travel this year.
- However, real disposable income gains could be a bit more modest in 2016. Wage growth weaker due to lower corporate profits in 2015 and higher inflation.
- Fortunately, gas prices are not expected to increase much in 2016 and air capacity looks to be growing faster than demand.

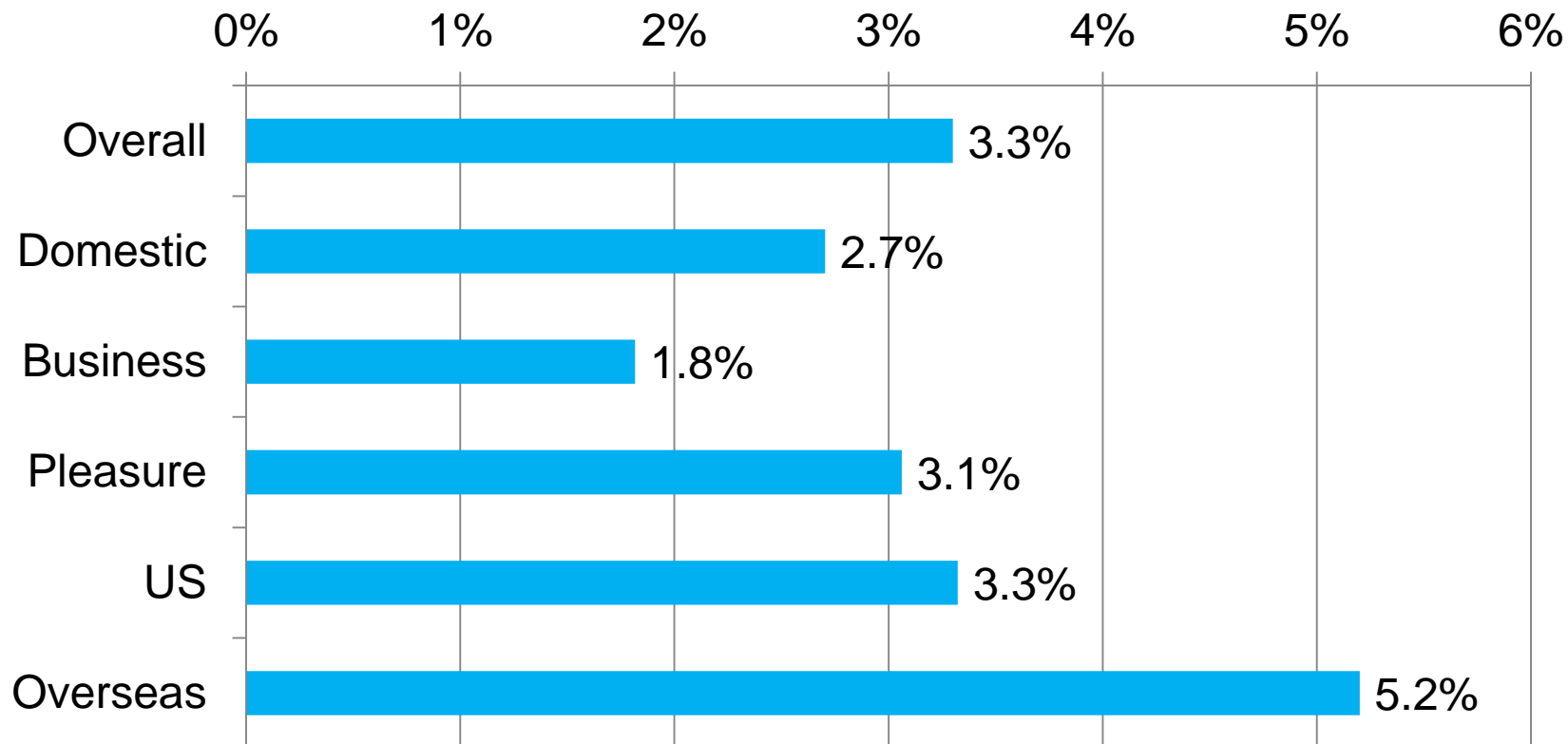
Domestic Business Travel - Issues

- Nationally, business travel took a big hit in 2015 from economic weakness in a few provinces and uncertain business conditions in others.
- On the other hand, many cities experienced solid growth in convention related activity (including Vancouver – up 8%).
- For 2016, business profits expected to improve modestly and employment growth to continue, however, government austerity measures will continue to limit pace of growth.
- Convention activity in Vancouver estimated to be down 5% (compared with 2015).

Tourism Growth – Vancouver (2016)

% Change in Overnight person-visits (2016/2015)

2015 = 4.9%



Sources: Statistics Canada; The Conference Board of Canada.

Tourism Growth – Vancouver (2015-2018)

Overnight visits

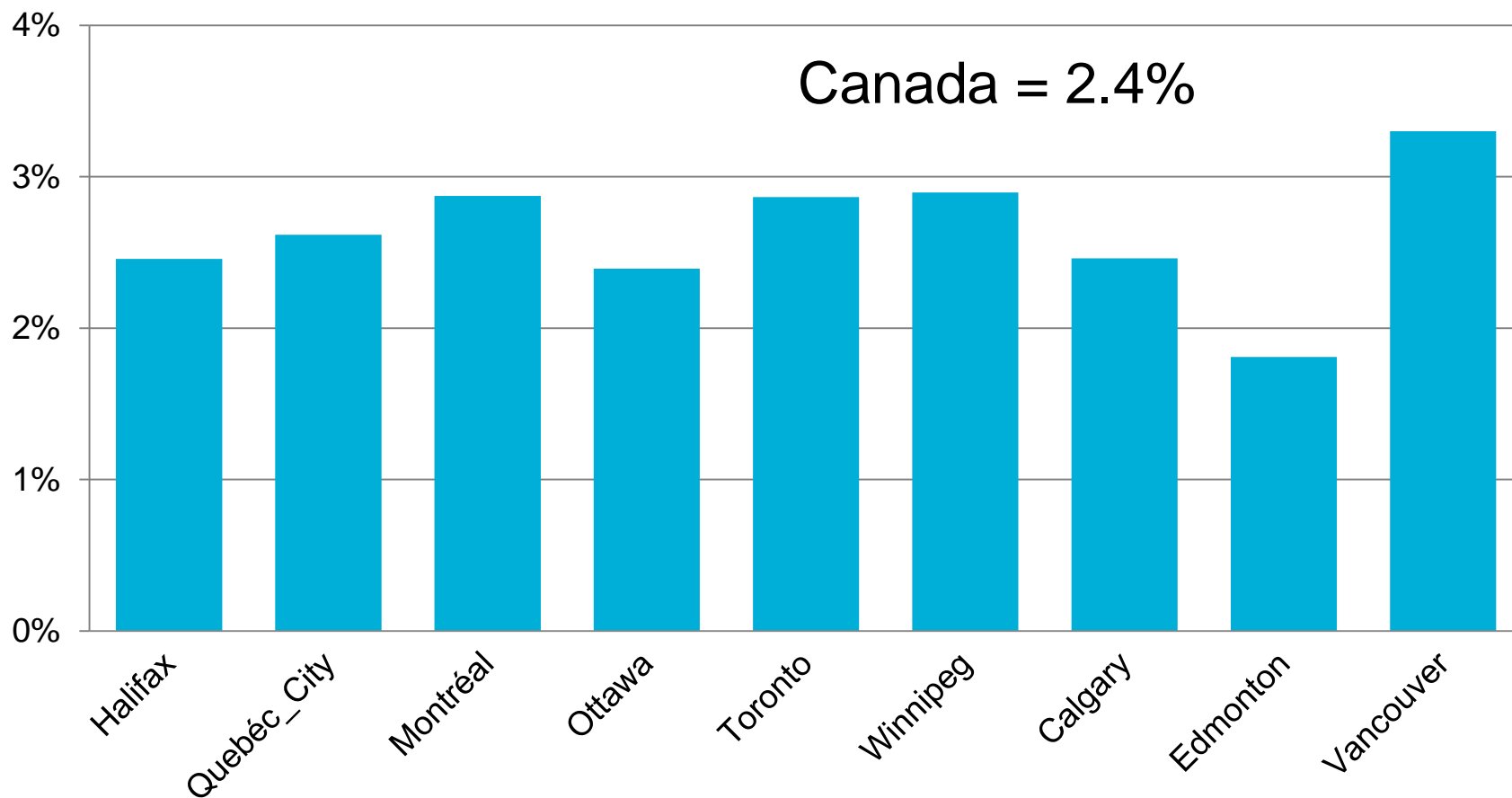
Vancouver	2015e	2016f	2017f	2018f
Total ('000s overnight visits)	9,416	9,723	10,020	10,320
	4.9	3.3	3.1	3.0
Domestic	5,687	5,841	5,991	6,156
	3.7	2.7	2.6	2.8
United States	2,187	2,259	2,324	2,375
	7.7	3.3	2.9	2.2
Overseas	1,542	1,623	1,705	1,789
	5.3	5.2	5.0	4.9
Total Expenditures (\$ millions overnight)	3,104	3,298	3,490	3,688
	5.9	6.3	5.8	5.7
Travel Price Index	0.43	2.46	2.21	2.18

e = estimate; f = forecast

Sources: Tourism Vancouver's Visitor Volume Model, MNP; Statistics Canada (2014 TSRC), Statistics Canada (2013 ITS), The Conference Board of Canada

Tourism Growth Projections (2016)

% Change in Overnight person-visits (2016 vs. 2015)

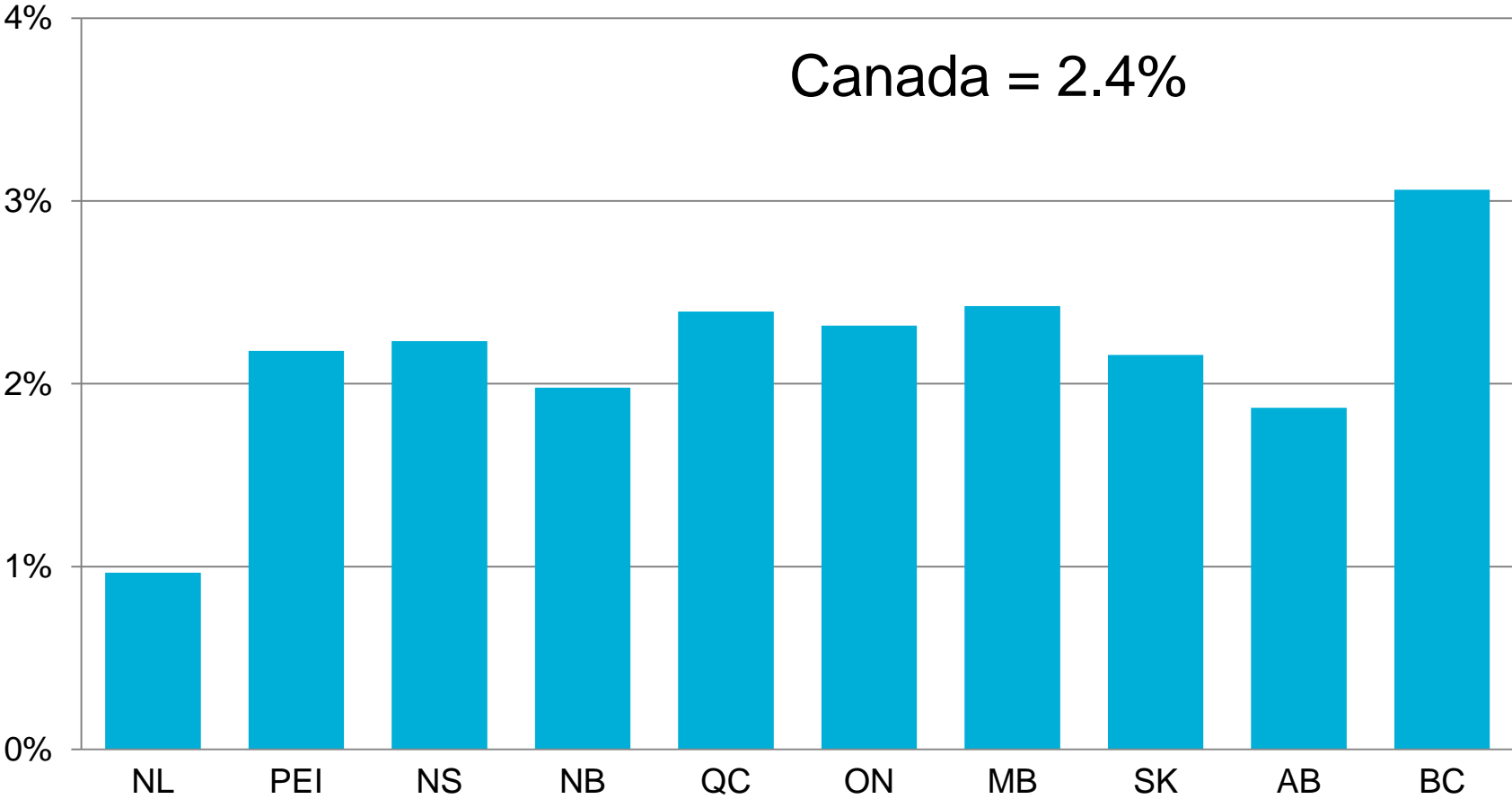


Sources: Statistics Canada; The Conference Board of Canada.



Tourism Growth Projections (2016)

% Change in Overnight province-visits (2016 vs. 2015)



Canada = 2.4%

Sources: Statistics Canada; The Conference Board of Canada.

U.S. Travel Market - Issues

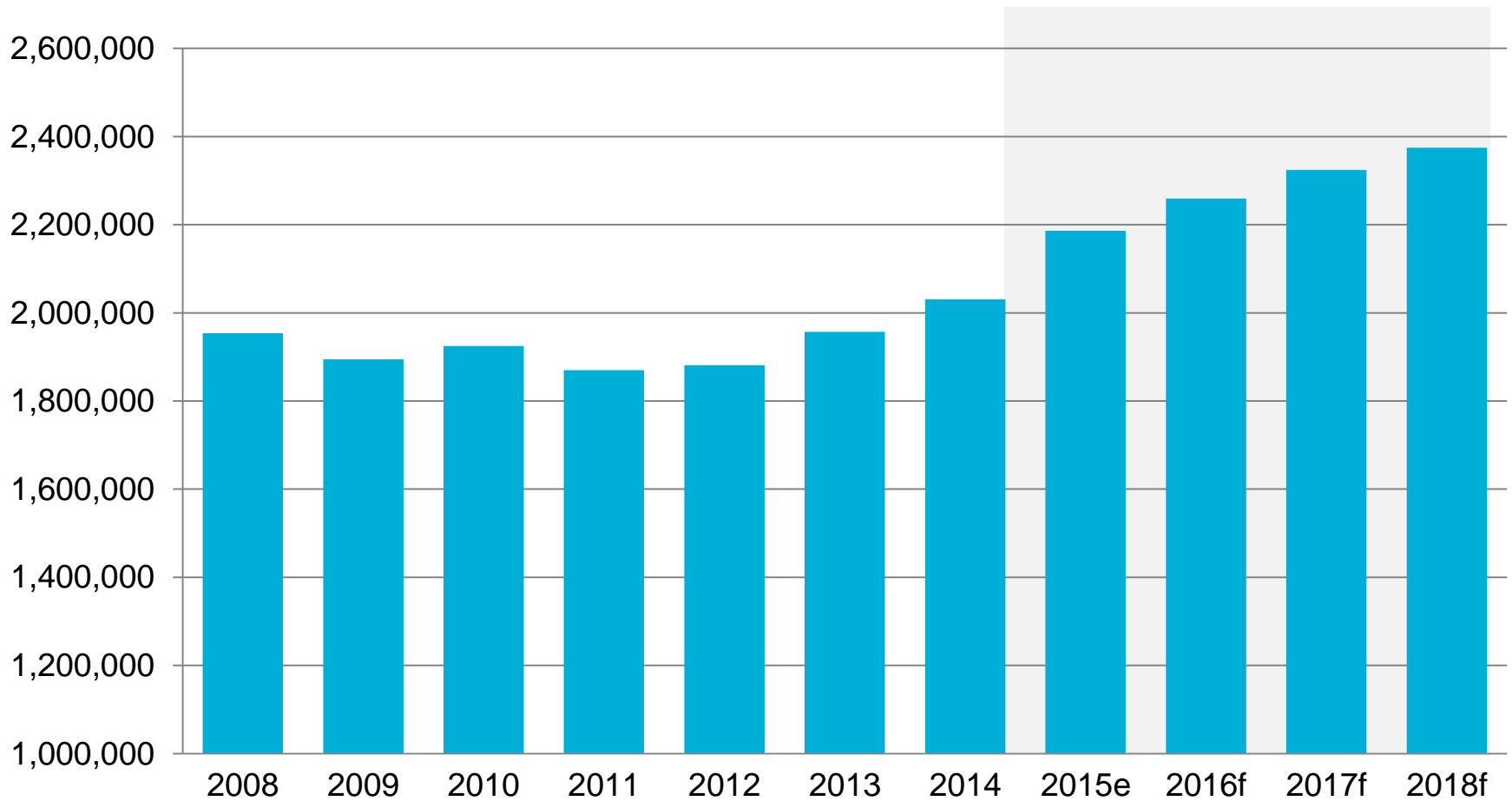
- Longer-term trend has not been in Canada's favour , however US economy has been performing much better, consumer confidence has improved and more Americans than ever have passports.
- The favourable exchange rate and lower gas prices look to persist over the near term
- Many regions have also stepped up marketing efforts to attract U.S. visitors.
- However, employment growth is projected to be a bit more modest in 2016 and consumer expectations going forward are a bit more subdued.

U.S. Travel Market – Exchange Rate Effects

- In 2015, the exchange rate made travel to Canada much more price competitive. In general, when the value of the \$CDN declines 10% increase we would expect a 4.5% increase in car, 2.5% increase in air and 2.0% increase in other.
- This year we witnessed a near 15% decline in exchange rate, hence should see a boost to car travel by 6.8%, air by 3.8% and other by 3%.
- Going forward, we see a slight boost from lagged effects of the weaker dollar but not significant further declines in the value of the \$CDN.

Overnight US travel to Vancouver

(visits)



Sources: Statistics Canada; The Conference Board of Canada.

Overnight US travel to Vancouver

(% Change in visits over previous year)

	2015e	2016f	2017f	2018f
US by Car	9.1%	3.5%	3.2%	2.3%
US by Plane	8.1%	4.9%	4.0%	3.6%
US by Other	4.0%	1.0%	0.5%	0.2%
Total to Vancouver	7.7%	3.3%	2.9%	2.2%

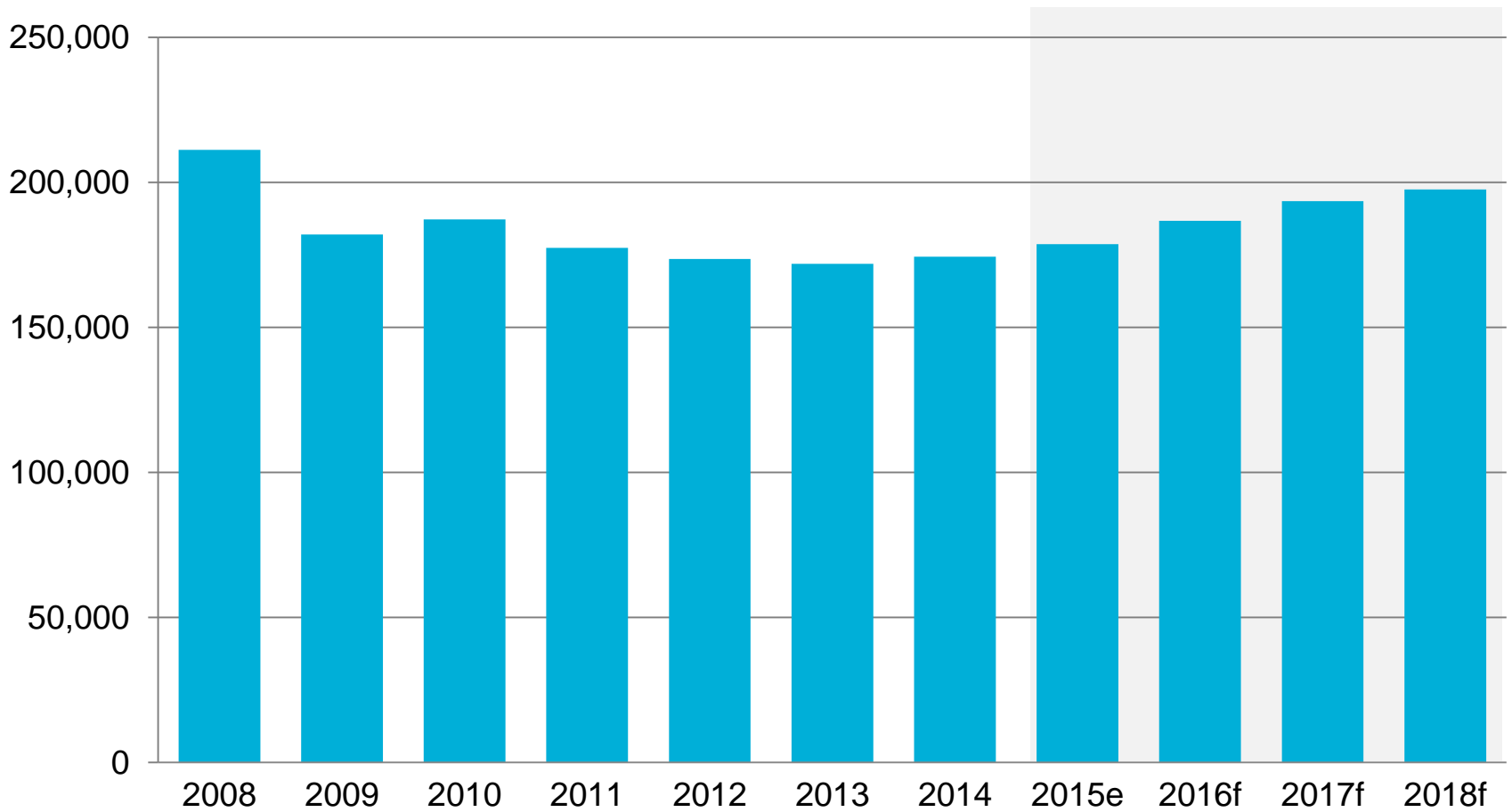
Sources: Statistics Canada; The Conference Board of Canada.

Overseas Travel Market - Issues

- Overall volumes have now recovered from 2009
- However, many traditional source markets continue to face economic challenges
- Many emerging markets are now facing stronger economic headwinds
- Electronic Travel Authorization – Visa-Exempt visitors to pay \$7 starting March 15, 2016 (Valid up to 5 years)
- Fortunately, geopolitical issues have eased (for the moment) – Russia, ISIS

UK travel to Vancouver

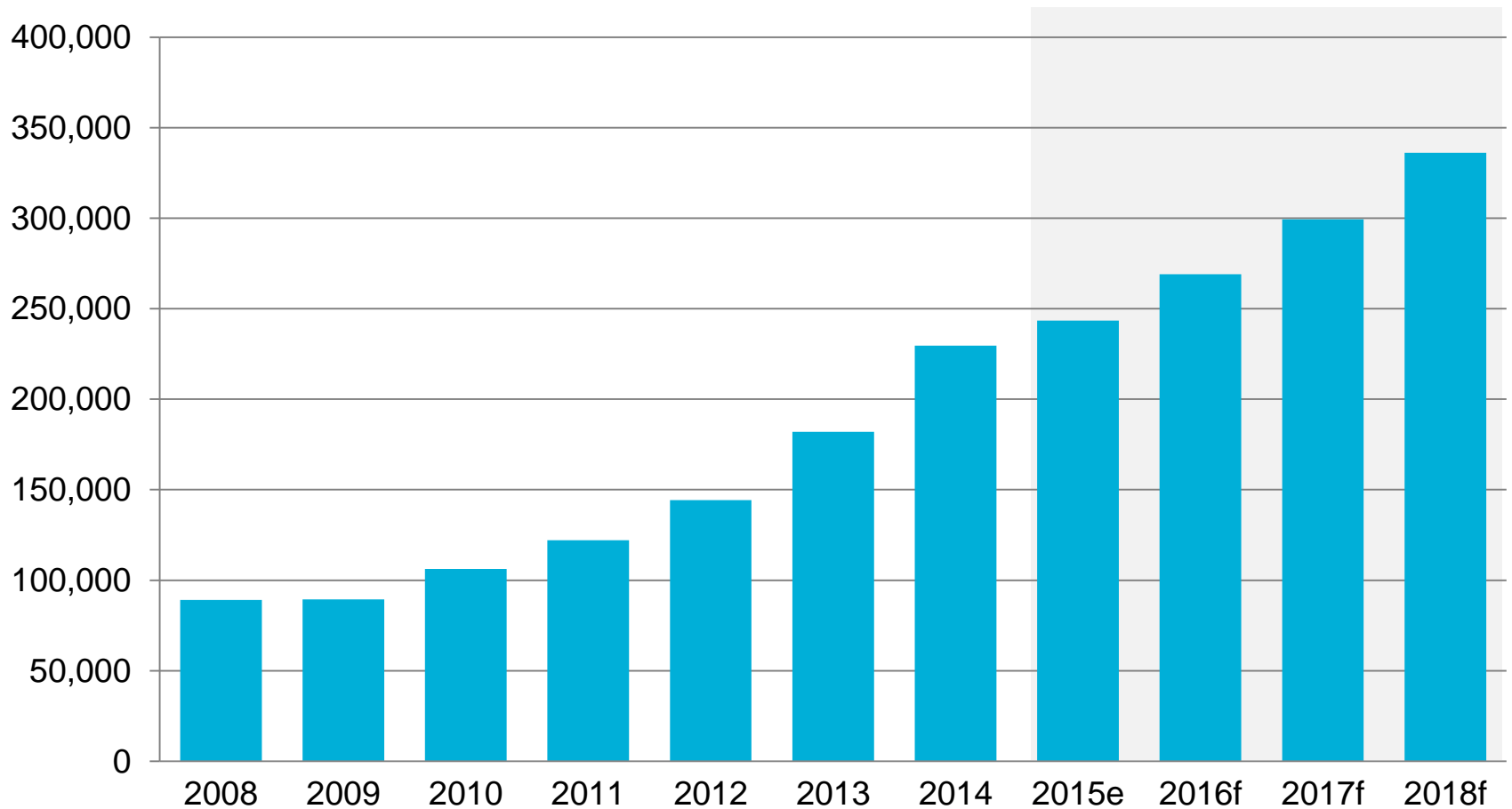
(visits)



Sources: Statistics Canada; The Conference Board of Canada.

Chinese travel to Vancouver

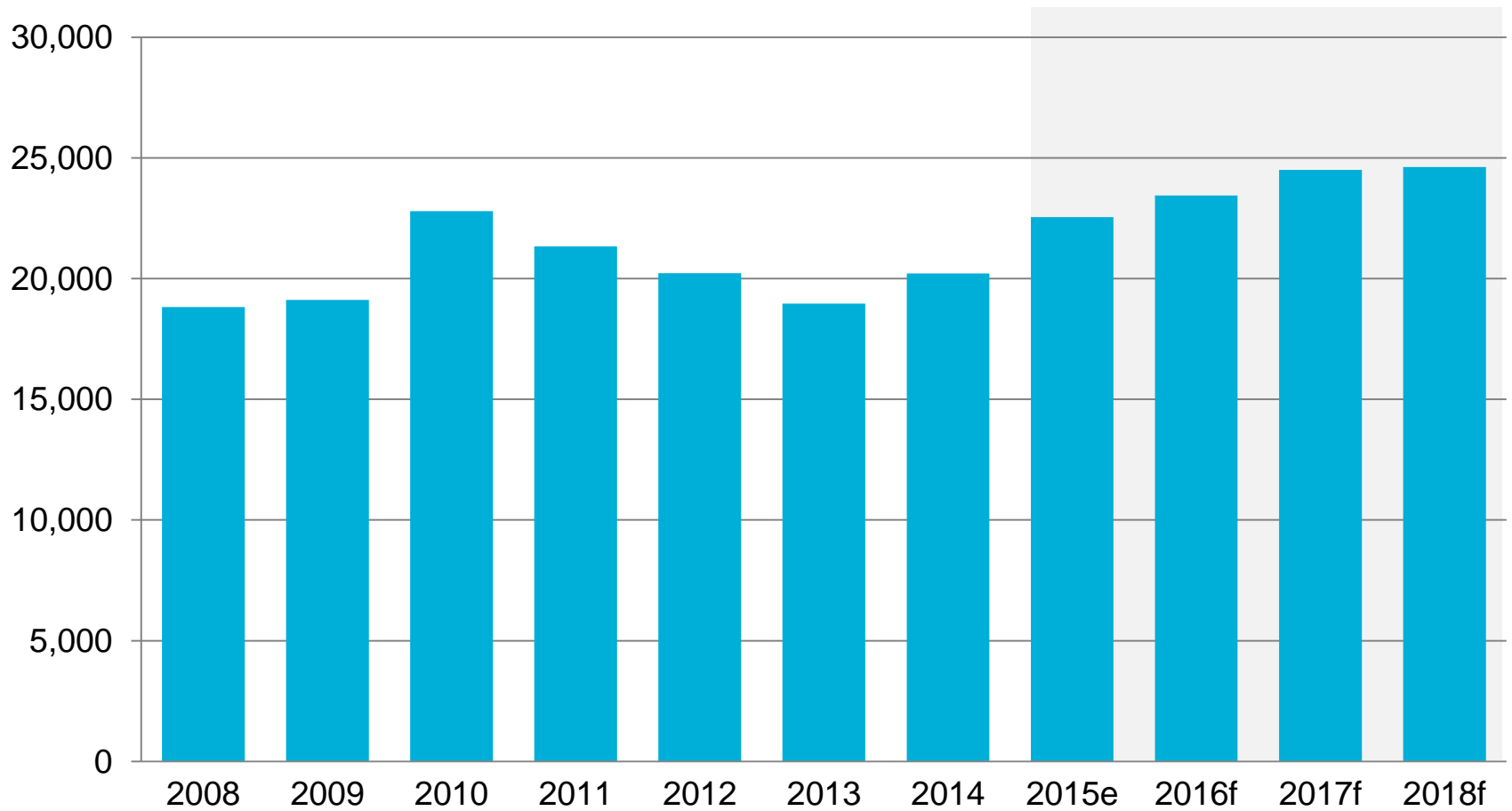
(visits)



Sources: Statistics Canada; The Conference Board of Canada.

France travel to Vancouver

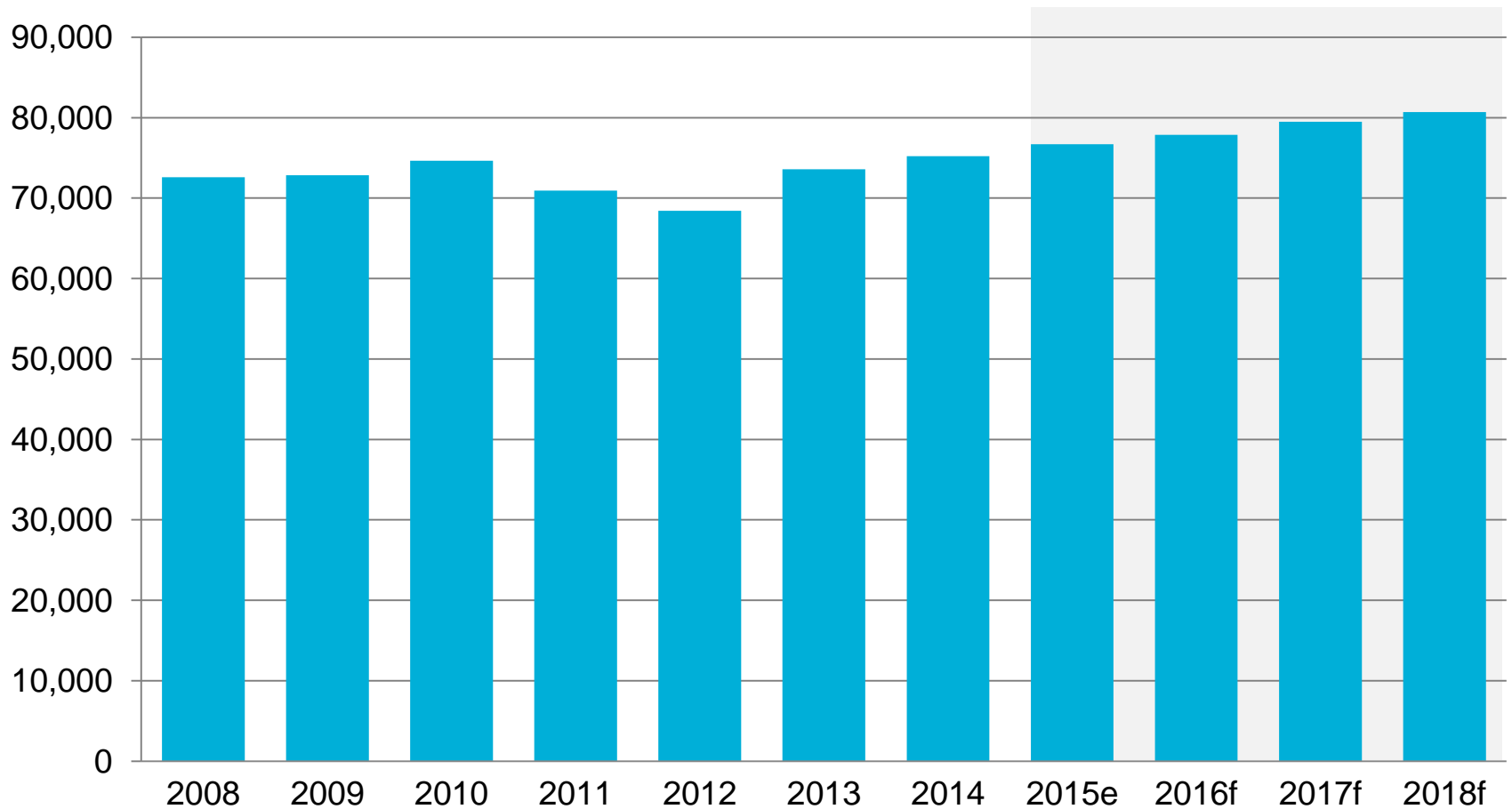
(visits)



Sources: Statistics Canada; The Conference Board of Canada.

Germany travel to Vancouver

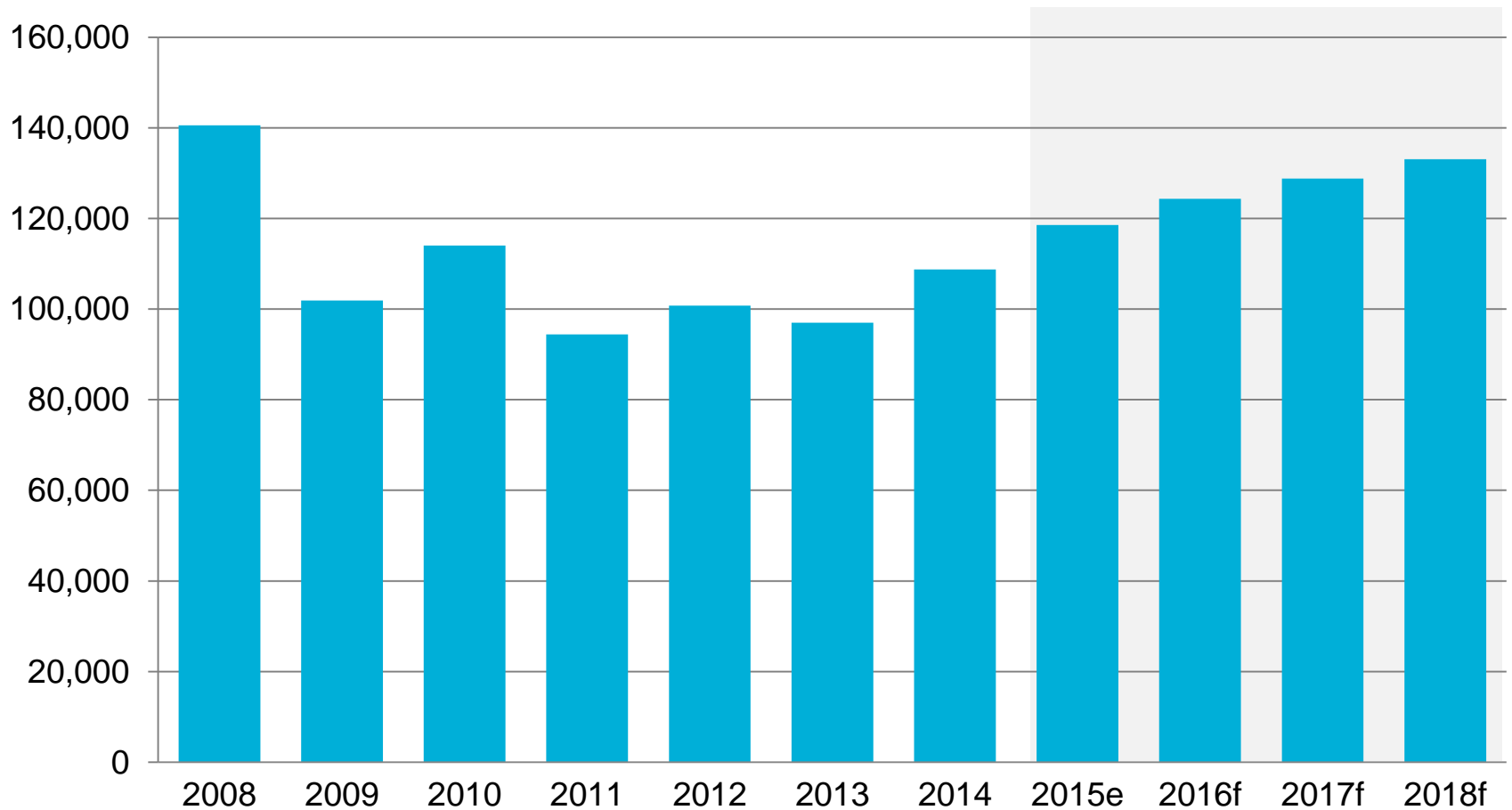
(visits)



Sources: Statistics Canada; The Conference Board of Canada.

Japanese travel to Vancouver

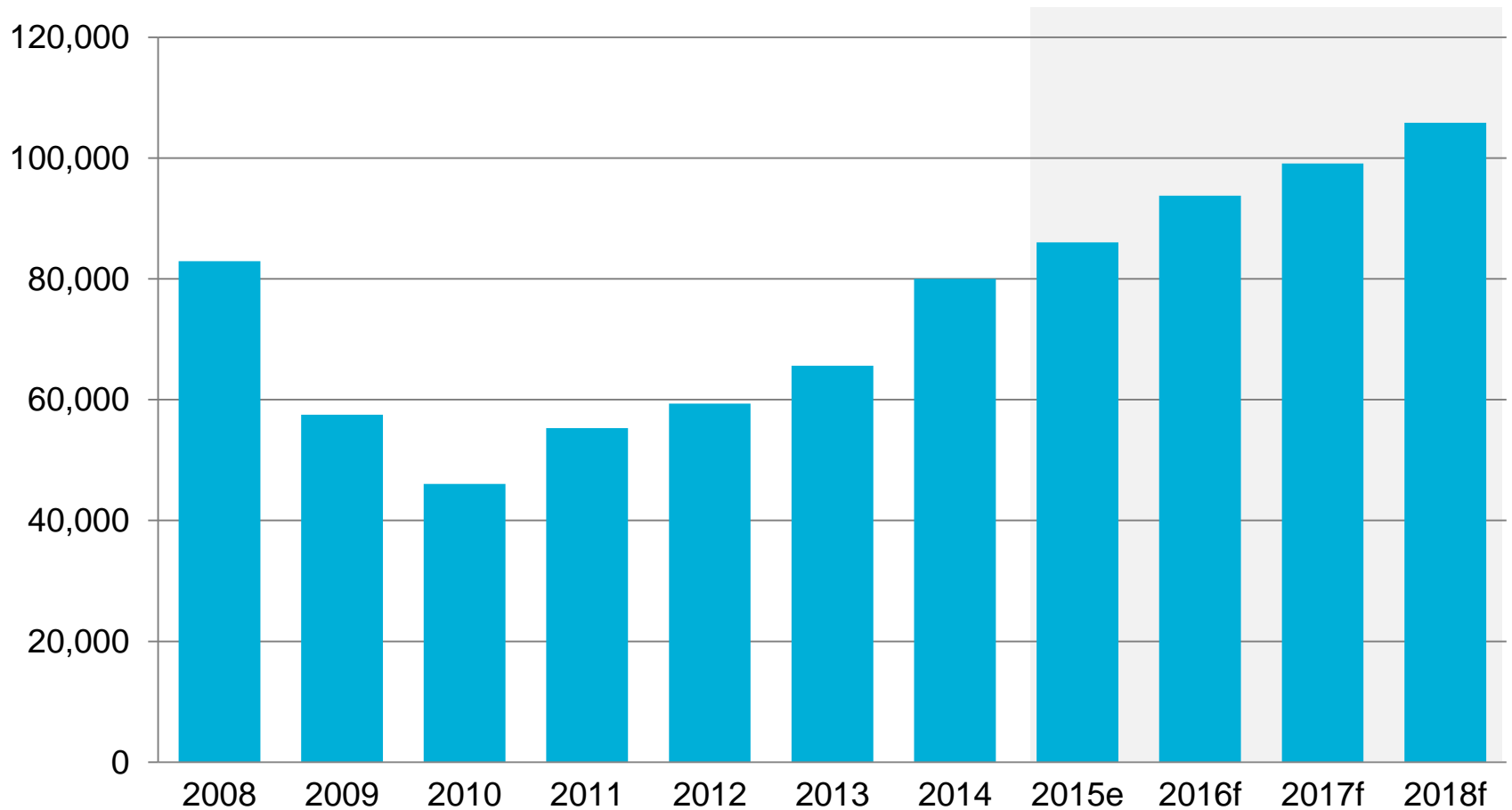
(visits)



Sources: Statistics Canada; The Conference Board of Canada.

Mexico travel to Vancouver

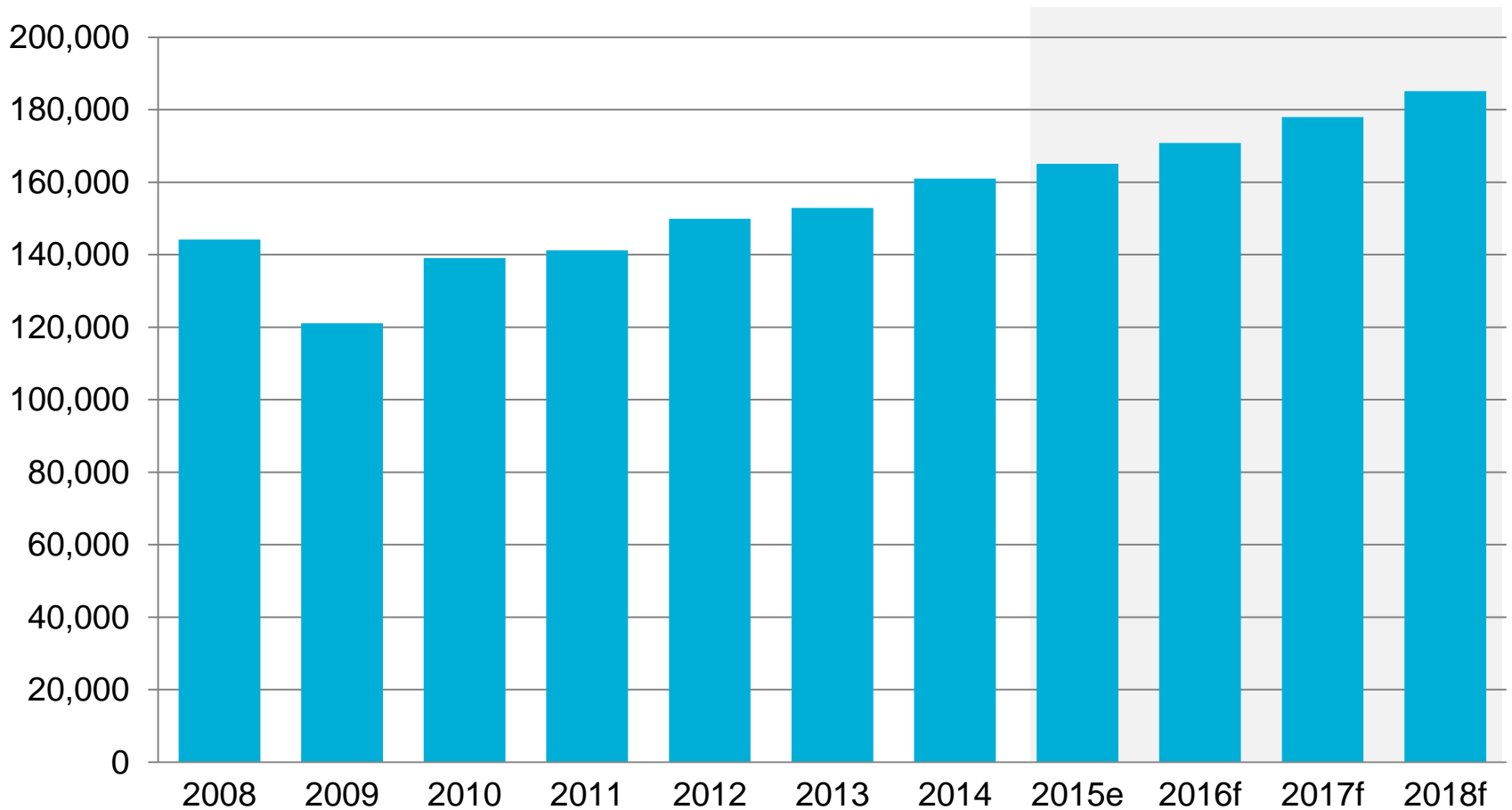
(visits)



Sources: Statistics Canada; The Conference Board of Canada.

Australia travel to Vancouver

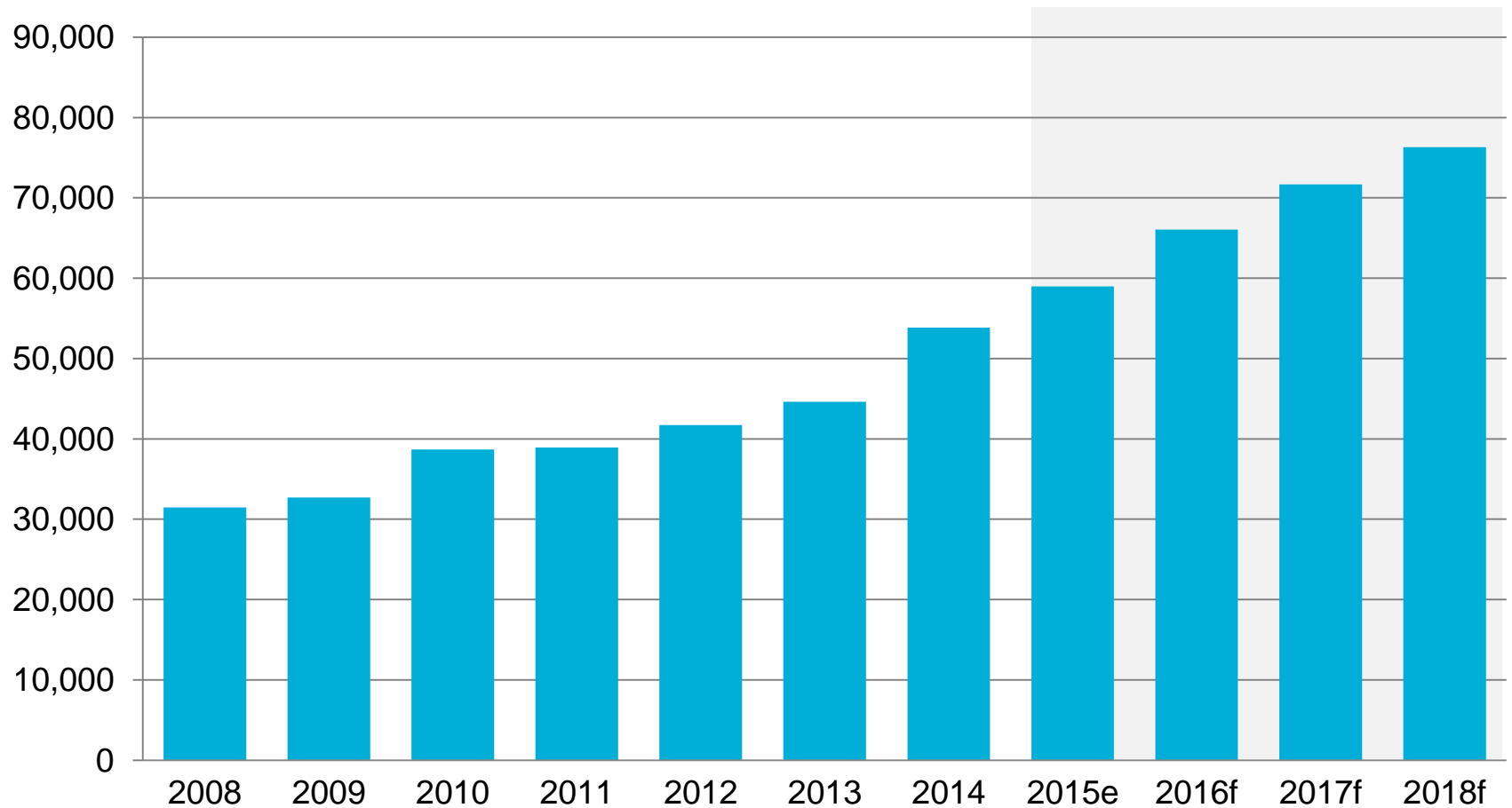
(visits)



Sources: Statistics Canada; The Conference Board of Canada.

India travel to Vancouver

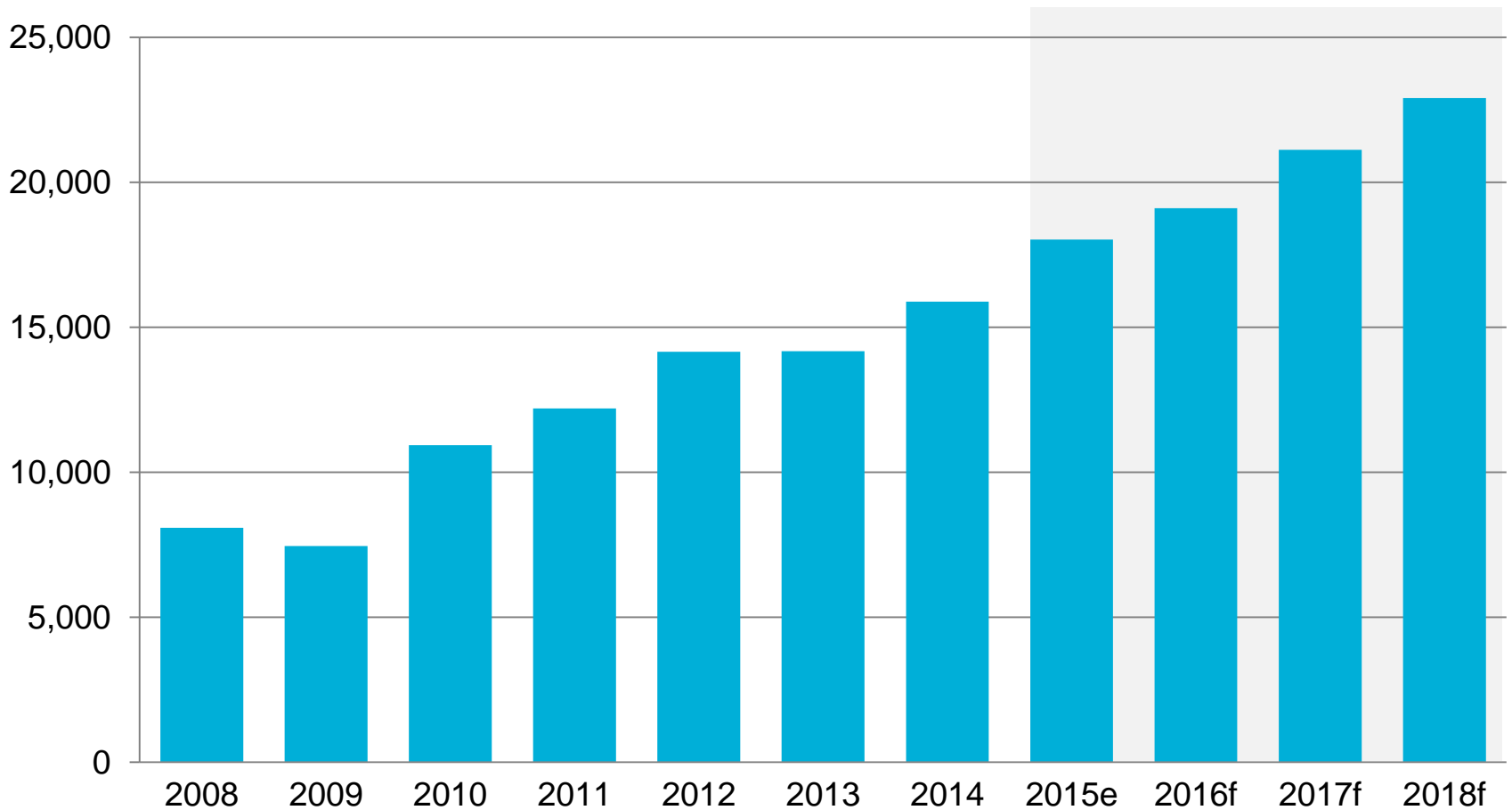
(visits)



Sources: Statistics Canada; The Conference Board of Canada.

Brazil travel to Vancouver

(visits)



Sources: Statistics Canada; The Conference Board of Canada.

Select European Markets to Vancouver

(% Change in visits over previous year)

	2015f	2016f	2017f	2018f
France	11.5%	4.0%	4.5%	0.5%
Germany	2.0%	1.5%	2.1%	1.5%
Italy	3.0%	1.5%	2.1%	1.3%
Switzerland	7.0%	3.0%	2.5%	2.2%
Spain	10.0%	3.0%	1.5%	1.8%
UK	2.5%	4.5%	3.6%	2.1%

Sources: Statistics Canada; The Conference Board of Canada.

Select Other Overseas Markets to Vancouver

(% Change in visits over previous year)

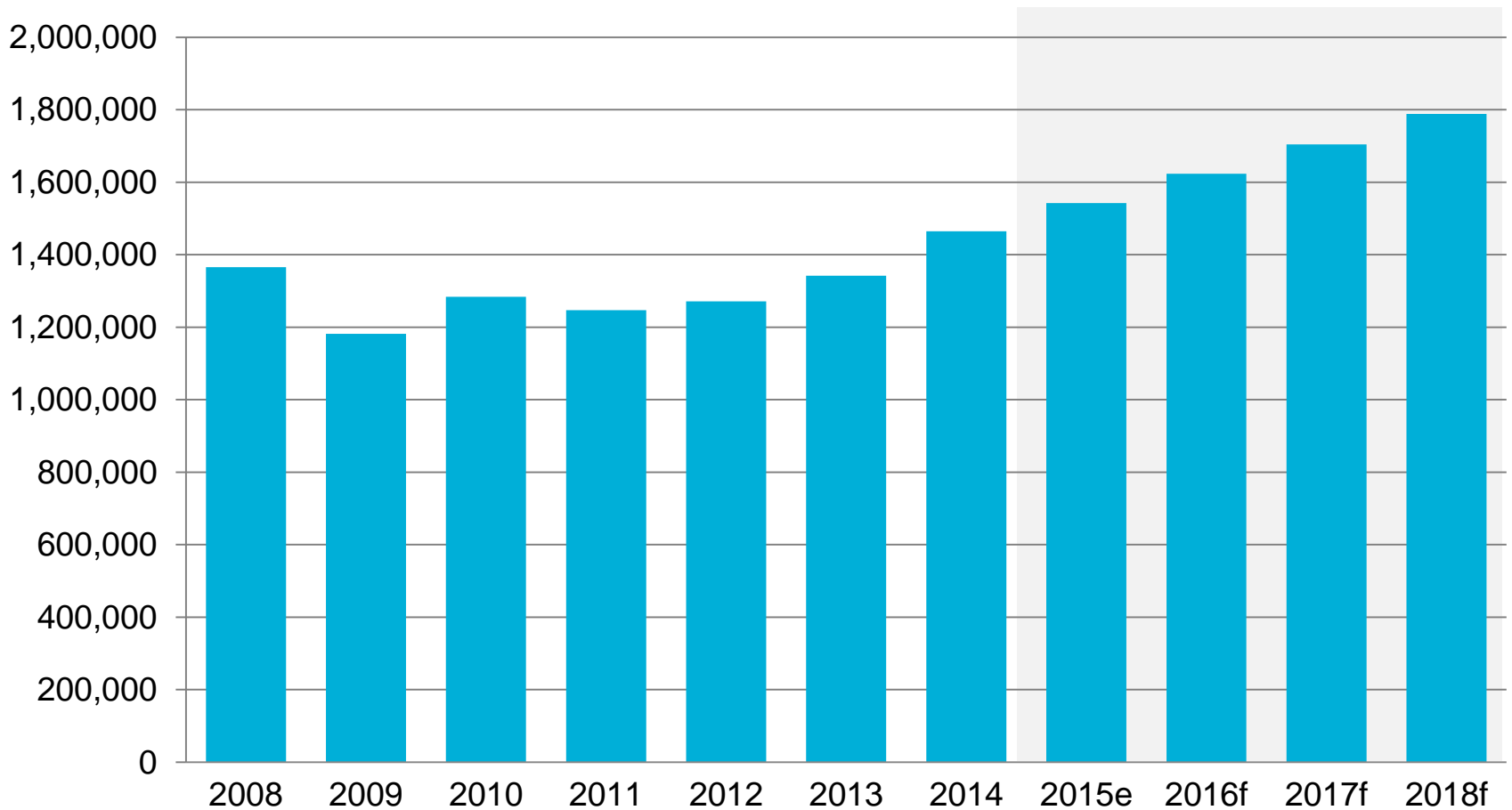
	2015f	2016f	2017f	2018f
Japan	9.0%	4.9%	3.6%	3.3%
China	6.0%	10.5%	11.3%	12.3%
South Korea	8.1%	4.1%	2.5%	3.0%
Taiwan	2.0%	4.0%	3.7%	3.8%
Mexico	7.5%	9.0%	5.7%	6.8%
Australia	2.5%	3.5%	4.2%	4.0%
India	9.5%	12.0%	8.5%	6.5%
Brazil	13.5%	6.0%	10.5%	8.5%

Sources: Statistics Canada; The Conference Board of Canada.



Overnight Overseas visits to Vancouver

(visits)



Sources: Statistics Canada; The Conference Board of Canada.

Summary

- 2016
 - Tourism activity across all segments to increase.
 - Domestic pleasure travel to continue to get a slight boost from the low value of the \$CDN, low gas prices and increased air capacity.
 - Domestic business travel to get a boost from slightly stronger economic growth and corporate profitability in most regions but convention activity weaker.
 - US visits to continue to advance but at a more modest pace.
 - Overseas looks poised for another solid year of growth.



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