

LEISURE TRAVELLERS DRIVING THE TOURISM BUS

In my January newsletter article [“2016 Outlook – Hospitality and Tourism”](#), I forecasted this year to be another economically challenging one for the tourism sector, even with a few favorable conditions existing in the market. A weak Canadian dollar will incent Canadians to travel their own country more and will motivate the American traveler – our number one international travel market - and other foreign visitors to make Canada their 2016 destination. Also, with lower fuel prices lower travel costs will provide travelers some relief at the pump for the important “rubber tire” market. However, my prediction of 2016 duplicating the poor results of 2015 was based on an expected drop off in business travel due to the Oil and Gas economy.

This forecast was not a difficult one to make and I certainly wasn't the only person projecting this type of year; and so I am not suggesting I am this generation's Nostradamus or that I will be spending more time looking into my crystal ball. However, I do believe that with the Calgary Stampede upon us, and as we enter the third quarter of the year – tourism's highest revenue quarter – it might be healthy to look at our vital signs and see how we are doing!



Alberta GDP growth projections in the first quarter of 2016 were all negative by four leading institutions: ATB Financial -0.5%; Scotiabank -1.9%; RBC -1.6%; and the Conference Board of Canada -1.1%. The Canadian Tourism Research Institute forecasted in 2016 growth of Overnight Pleasure Travel by Canadians of 1.6% on top of the 0.7% growth estimate in 2015. Business Overnight Travel by Canadians was projected to rise 1.8% over 2015 but that is based on an estimate of a 6.3% drop in 2015 performance to 2014. USA Overnight Travel and Overseas Overnight Travel were forecast to rise 3.8% and 4.1% respectively. Combined, Total Overnight Travel visits were estimated to increase by only 0.3% in 2015 and 1.9% in 2016, with these small growth projections being driven by leisure travelers.

In January 2015 and February 2015 the West Texas Intermediate price per barrel in US dollars was \$47 and \$51 respectively. In January 2016 and February 2016 the same measure was \$32 and \$30 per barrel – an average of 36% drop from the previous year in these two months. In January 2015 and February 2015 the RevPAR (Revenue Per Available Room) in Alberta was \$75 and \$86 respectively. In January 2016 and February 2016 the RevPAR was \$55 and \$63 – an average decrease of 27% in revenue per room for these two months. There is a direct correlation in hotel performance related to the Oil and Gas sector performance, and while leisure tourism growth helps to offset business travel decreases, it cannot match the high yield of business travel for hotels.

Another factor we are seeing in 2016 is the ongoing increase in hotel room supply. New hotels, like the Hilton in East Village and Marriott at the airport, on the heels of new hotels opened last year, are increasing significantly the amount of hotel rooms available to travelers at a time when demand is flat or diminished from previous years. This puts tremendous pressure on hoteliers to maintain rates in a very competitive environment. Tourists, whether for leisure or business, are the beneficiaries as room rates drop and hoteliers struggle to keep RevPAR at budgeted levels.

Reports suggest that the mountain resorts are expecting a great summer in hotel occupancy. Hopefully room rates will reflect the high demand offsetting the downturn in business travel the other seven months of the year. Leisure travelers are definitely driving the tourism bus this year in Alberta!

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