Industry Trends

Neil Tisdall 416.866.6252
neil.tisdall@scotiabank.com

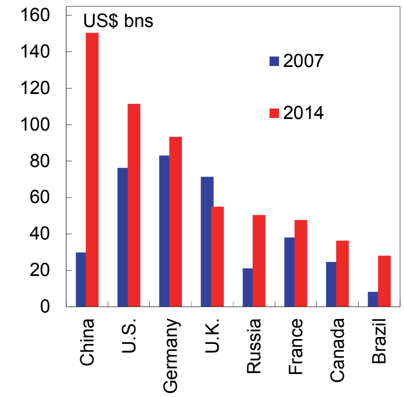
Hospitality

The global hospitality industry is on track to have another solid year in 2015, with rising travel volumes and moderate advances in GDP supportive of higher hotel occupancy rates and increasing revenue-per-available hotel room (RevPAR). Economic growth in the advanced nations is likely to pick up to around 2% this year, the best since 2010. The Euro zone is expected to advance at its strongest pace in four years even with the uncertainty surrounding the Greek debt crisis, and U.S. output will likely exceed 2% for the fourth consecutive year. Global growth should continue to expand just above 3%, despite a pullback in emerging markets driven by recessions in Russia and Brazil.

Return on equity (ROE) in the S&P 500's Hotels Resorts & Cruise Lines sub-index picked up to 14% through the first half of 2015, advancing from 12-13% the years previous, although variance amongst companies is high. Hotel chains with broad holdings in the discount-to-midrange market have fared better than chains with only higher-end properties. In addition, companies with a wide geographical presence, particularly in the emerging markets where a rapidly expanding middle class is fuelling a tourism boom, are outperforming those with only North American and European holdings. Hotel operators have successfully cut costs by hiring more part-time employees to cover peak demand periods. Strong demand and only incremental growth in the number of new hotel rooms has enabled major hotel chains to keep profit margins at around 10%, near the S&P 500 average.

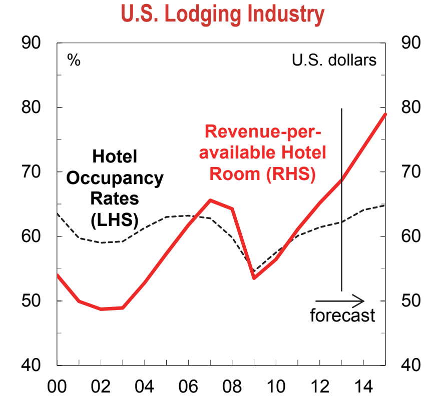
A rapidly expanding middle class has enabled China to become the most lucrative tourist market in the world, with outbound tourism expenditures topping US$150bn in 2014, and representing over 10% of world travel spending. Outbound travel from China is forecast to increase by 8% per year through the end of the decade, with the majority of trips remaining in Asia. The Chinese territories of Macau and Hong Kong draw a large proportion of mainland Chinese visitors, and are considered foreign destinations — both rank in the global top 20 of most frequently visited nations. Recent anti-corruption and money laundering measures imposed by Beijing are a headwind to gaming and tourism revenue for Macau, but with comparable casino options in Singapore and the Philippines that are not subject to Beijing's newly imposed restrictions, outbound tourism from China is unlikely to be significantly dented.

Tourism Expenditure



Source: Scotiabank Economics, UNWTO.

U.S. Lodging Industry



Source: Scotiabank Economics, PWC.

Scotiabank Economics
Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: 416.866.6253 Fax: 416.866.2829
Email: scotia.economics@scotiabank.com

The U.S. is the second largest source of international tourism spending, and following a 6.4% jump in expenditures in 2014, should advance at a similar pace in 2015 alongside continuing U.S. dollar strength. For inbound tourist arrivals, developing nations are quickly catching up to the advanced economies as preferred travel destinations, and hotel chain operators with a large emerging market presence will continue to benefit. China, Turkey, Thailand and Malaysia have experienced rapid growth in tourism, while 'megaevents' such as the 2016 Summer Olympics in Brazil and the 2018 FIFA World Cup in Russia are being held more frequently in developing nations, advancing their status as viable tourist destinations. Around 46% of global travel was to an emerging market destination in 2014, up from 38% in 2000, and the gap will continue to narrow.

The hotel industry is a mature market, and is sensitive to aggregate travel volumes and consumer spending trends. International tourist arrivals are projected to advance 3.5% this year, the sixth consecutive annual increase. The Americas and Asia Pacific will drive growth, while Europe, Africa and the Middle East will contribute more modest gains. Lower crude oil prices will have a positive effect on world travel, with consumers receiving a boost in disposable income and small discounts on airfares (a recent survey indicated the average plane ticket will be priced 5.7% lower than in 2014). However, negative effects on employment and confidence in oil exporting regions such as Canada and the Middle East will partially offset these incentives to travel, while currency shifts will have an impact on outbound travel from key tourism markets such as Brazil, Canada, and the Euro zone.

Disruptive technologies have both helped and hindered profitability and occupancy rates at major hotel chains. Losses in revenue and increased competition stemming from short term peer-to-peer room rental services have been more than offset by increased sales of hotel rooms by third-party companies. Several hotel chains posted record occupancy rates last year, with over 15% of total sales booked through intermediary websites.

Hotels & Hospitality Industry Fundamentals

	2011	2012	2013	2014e	2015f
			(y/y % change)		
World Tourist Arrivals	5.1	4.1	4.7	4.7	3.5
Europe	6.6	3.7	5.0	3.9	3.5
Asia Pacific	6.5	6.9	6.8	5.4	4.5
Americas	3.5	4.4	3.5	7.4	4.5
Global GDP	0.0	4.2	3.4	3.3	3.2
U.S. GDP	1.6	2.3	2.2	2.4	2.3
China GDP	9.3	7.7	7.7	7.4	7.0

Source: Scotiabank Economics, UNWTO, PWC.