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Impact of COVID-19 on the tourism sector, second quarter of 2021

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Impact of COVID-19 on the tourism sector, second quarter of 2021

by **Stephanie Tam, Shivani Sood and Chris Johnston**

In March 2020, the government imposed travel restrictions and border closures aimed at containing COVID-19, which brought travel to and from Canada to a near standstill.¹ In fact, in this month, the number of international arrivals to Canada from other countries fell by 54.2% from February 2020, the largest single monthly drop since 1972.² Most hotels were empty: by the first week of April 2020, the hotel occupancy rate was below 20% across Canada.³

To reduce the spread of COVID-19, the Canadian government closed its international border to non-Canadian citizens and permanent residents, with the exception of US citizens. Shortly following this, the Canada–US border was closed to non-essential travel, and various restrictions on non-essential travel to and from Canada were in place for the remainder of 2020 and continued into 2021. Some restrictions affected domestic travel of Canadians as well, such as the closure of various provincial and territorial borders, restrictions placed on travel between regions of a province or territory, and limitations of non-essential travel. With the persistence of the pandemic affecting many parts of the world, restrictions were tightened and further extended into 2021. As of May 2021, restrictions on non-essential travel into Canada remained, as did the mandatory 14-day quarantine period for Canadians returning from abroad.

These travel restrictions have a direct impact on businesses, particularly those in the tourism sector, which was one of the hardest hit by government interventions. In 2020, tourism⁴ gross domestic product (GDP) was down 47.9% annually, while economy-wide, GDP fell at a much slower pace (-5.4%). This contributed to a decline in tourism's share of GDP, which fell from 2.0% in 2019 to 1.1% in 2020. Tourism spending was almost cut in half (-48.1%) in 2020.⁵

Under these circumstances, many businesses in the tourism industry have had to reduce their hours, or close temporarily or permanently, which led to laying off employees. In 2020, tourism activities generated about 530,000 jobs.⁶ Tourism jobs fell 28.7% annually in 2020, with most of the drop occurring in the second quarter. All tourism categories were down in 2020, with food and beverage services (-32.3%) and accommodation (-35.2%) contributing most to the overall decline. Tourism's share of employment fell from 3.8% in 2019 to 3.0% in 2020.⁷

1. Statistics Canada. (2021). [National Travel Survey, third quarter 2020](#).

2. Liu, H. (2020). [The Economic Impact of Travel Restrictions on the Canadian Economy due to the COVID-19 Pandemic](#).

3. STR. (2020). [Data Insights Blog, COVID-19 webinar summary: 5 key points on U.S. & Canada, 9 April](#).

4. Defined as per the [National Tourism Indicators](#).

5. Statistics Canada. (2021). [National tourism indicators, fourth quarter 2020](#).

6. Statistics Canada. (2021). [Employment generated by tourism \(x 1,000\)](#).

7. Statistics Canada. (2021). [National tourism indicators, fourth quarter 2020](#).





By the second quarter of 2021, the Canadian economy had experienced just over a full year of COVID-19. From the beginning of April to early May, Statistics Canada conducted the Canadian Survey on Business Conditions to better understand the ongoing effects of the pandemic on businesses and business expectations moving forward. This article provides insights on those expectations, as well as on the challenges and uncertainties faced by businesses in the tourism sector. For the purposes of this article, the tourism sector is composed of various industries including those in accommodation and food services; arts, entertainment and recreation; and transportation.⁸ Based on the results of this survey, businesses in the tourism sector expect profitability and sales to decline in the short term, but have a somewhat positive future outlook in the long term. A significant proportion of these businesses experienced a decline of 40% or more in revenue in 2020 compared with 2019 and over three-quarters were approved for or received some form of funding because of the pandemic.

Overwhelming majority of businesses in the tourism sector reported lower revenue in 2020 compared with 2019

As of December 2020, businesses in the tourism sector accounted for 7.7% of all employer businesses in Canada, of which the vast majority (98.0%) were small businesses with less than 100 employees.⁹

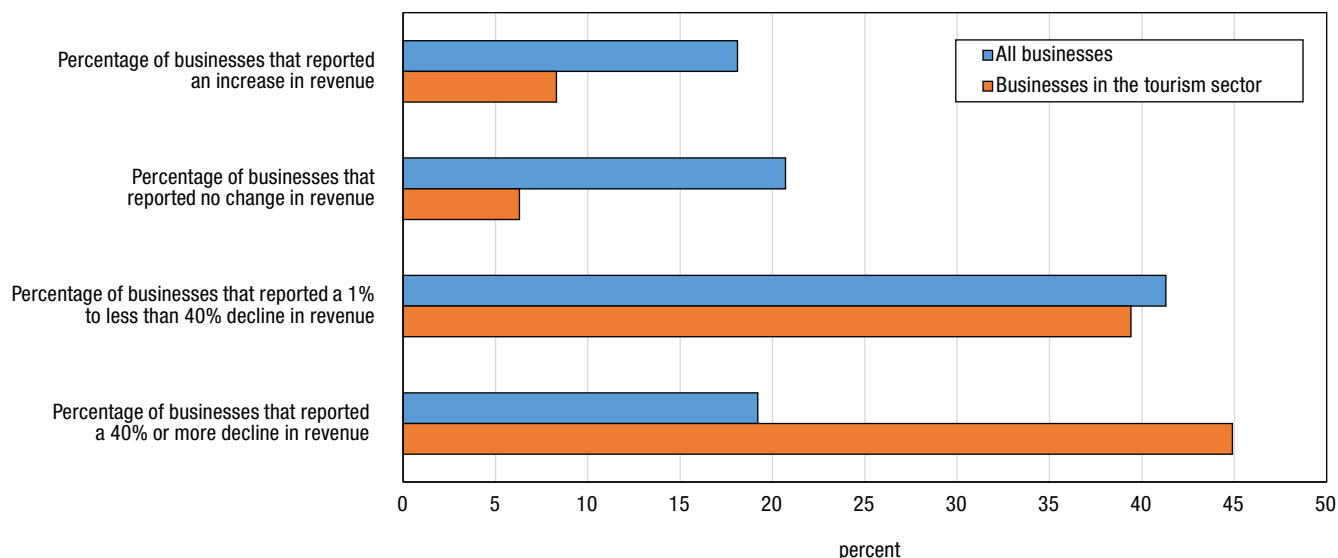
Over four-fifths (84.3%) of businesses in the tourism sector experienced a decrease in revenue in 2020 compared with three-fifths (60.5%) of all businesses. Almost half (44.9%) of businesses in the tourism sector experienced a decline of 40% or more in revenue in 2020, with those in Northwest Territories (52.4%), Prince Edward Island (51.6%), and Manitoba (51.3%) most likely to see this level of loss. Relatively few businesses in the tourism sector had unchanged revenues (6.3%) or saw their revenues increase (8.3%) in 2020 compared with 2019. In contrast, just under one-fifth (19.2%) of all businesses experienced a decline in revenue of 40% or more in 2020, over one-fifth (20.7%) saw revenues unchanged and nearly one-fifth (18.1%) saw revenues increase.

8. For the purposes of this article, the tourism sector is composed of the following North American Industry Classification System (NAICS): Air transportation (481), Passenger rail transportation (482114), Water transportation (483), Transit and ground passenger transportation (485), Scenic and sightseeing transportation (487), Motion picture and video exhibition (51213), Passenger car rental (532111), Truck, utility trailer and RV (recreational vehicle) rental and leasing (53212), Travel arrangement and reservation services (5615), Performing arts companies (7111), Spectator sports (7112), Promoters (presenters) of performing arts, sports and similar events (7113), Independent artists, writers and performers (7115), Heritage institutions (712), Amusement parks and arcades (7131), Gambling industries (7132), Golf courses and country clubs (71391), Skiing facilities (71392), Marinas (71393), Bowling centres (71395), Other amusement and recreation industries (71399), Traveller accommodation (7211), Recreational vehicle (RV) parks and recreational camps (7212), Drinking places (alcoholic beverages) (7224), Full-service restaurants and limited-service eating places (7225).

9. Statistics Canada. (2021). *Table 33-10-0304-01 Canadian Business Counts, with employees, December 2020* [Data table].



Chart 1
Business revenue from 2020 compared with 2019



Note: Respondents were asked: Compared to 2019, how did the revenues of this business change in 2020?
Source: Canadian Survey on Business Conditions, first quarter of 2021 (Table 33-10-0317-01).

Over one-quarter (28.9%) of businesses in the tourism sector reported expenses staying the same in 2020 compared with 2019. However, 14.8% of tourism businesses reported an increase of 20% or more in expenses in 2020.

Despite the reduced demand in the tourism sector in 2020 compared with 2019, the proportion of sales made online grew slightly year over year. In 2020, two-fifths (39.7%) of businesses in the tourism sector reported that at least some sales were made online, compared with under one-third (31.9%) in 2019.

Many businesses in the tourism sector anticipate losses to continue into the near future

Although travel has edged up each month since the record low in March 2020, travel has still remained far below 2019 levels. For example, following three consecutive years of positive growth, international travel to and from Canada declined 73%, from 96.8 million travellers in 2019 to 25.9 million in 2020. Additionally, travellers to Canada from both the United States and overseas countries were down 93.0% in December 2020 compared with December 2019. Similarly, the number of Canadian residents returning from abroad was down 91.3% year over year.¹⁰

Nearly half of businesses in the tourism sector expected the rising cost of inputs (43.5%) and attracting new or returning customers (39.2%) to be obstacles over the next three months.¹¹ Additionally, travel restrictions were an obstacle expected for two-fifths (39.4%) of tourism businesses, and over one-third (37.8%) expected government regulations to be an obstacle over the coming three months.

10. Statistics Canada. (2021). [Travel between Canada and other countries, December 2020](#).

11. The most recent survey was conducted from April 1 to May 6, 2021, and respondents were asked what their expectations would be over the next three-month period. As a result, those three months could range from April 1 to August 6, 2021, depending on when the business responded.



Nearly half (47.3%) of businesses in the tourism sector expected their profitability would decrease over the next three months, a higher proportion than all businesses (37.1%). Nearly two-fifths (38.4%) of tourism businesses expected profitability to remain the same, while 12.4% expected their profitability to increase.

Furthermore, nearly two-fifths (38.3%) of businesses in tourism expected lower sales over the next three months, higher than the proportion of all businesses (25.7%). Over one-third (36.4%) of businesses in the tourism sector expected sales to stay about the same.

Table 1
Expectations of tourism sector over the next three months, second quarter of 2021

	Increase (% of businesses)	Stay about the same (% of businesses)	Decrease (% of businesses)	Not applicable (% of businesses)
	percent			
Profitability	12.4	38.4	47.3	1.9
Sales	23.1	36.4	38.3	2.2
Number of employees	17.0	65.8	16.5	0.8
Vacant positions	11.7	48.1	12.6	27.5
Selling price of goods and services	21.2	67.2	9.0	2.7
Demand for products and services offered	23.3	50.7	23.5	2.5

Note: Respondents were asked between April 1 and May 6 how various business aspects were expected to change over the next three months. Therefore, the three month period could range from April 1 to August 6, 2021, depending on when the business responded..

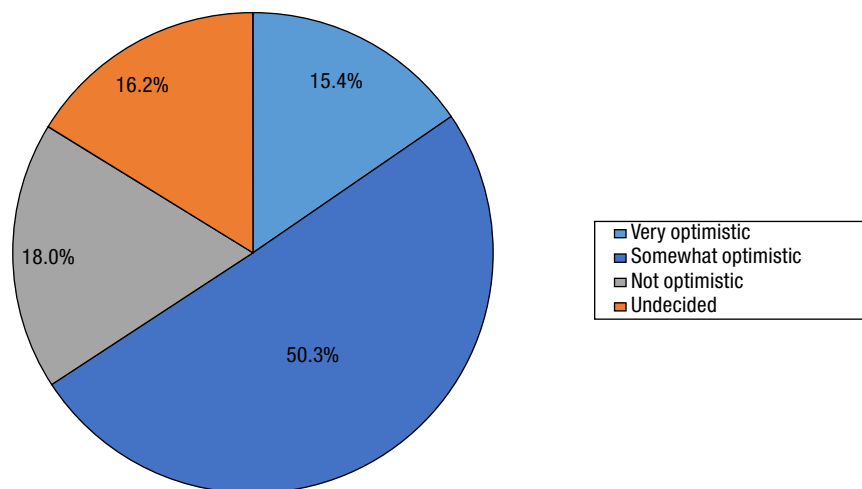
Source: Canadian Survey on Business Conditions, second quarter of 2021 (Table 33-10-0337-01).

Future outlook of businesses in the tourism sector are mostly positive in the long term

As provinces and territories begin moving towards final phases in vaccination distribution plans, vaccines have been increasingly administered to the general population and will continue into the summer. Despite the challenges businesses in the tourism sector are currently facing, in the long term, the majority of these businesses were either somewhat (50.3%) or very optimistic (15.4%) about the future outlook of their business over the next 12 months. However, nearly one-fifth (18.0%) reported that their future outlook was not optimistic, while 16.2% were undecided.



Chart 2
Future outlook of the tourism sector over the next 12 months



Note: Respondents were asked to report the future outlook of the business or organization.
Source: Canadian Survey on Business Conditions, second quarter of 2021 (Table 33-10-0361-01).

At their current level of revenue and expenditures, over half (54.2%) of businesses in the tourism sector reported that they could continue to operate for 12 months or more before considering closure or bankruptcy. However, one-quarter (25.5%) of businesses in the tourism sector were unsure, and 20.3% said they could continue to operate for less than 12 months before considering closure or bankruptcy. At the same time, 1.0% of businesses in the tourism sector plan to close in the next 12 months.

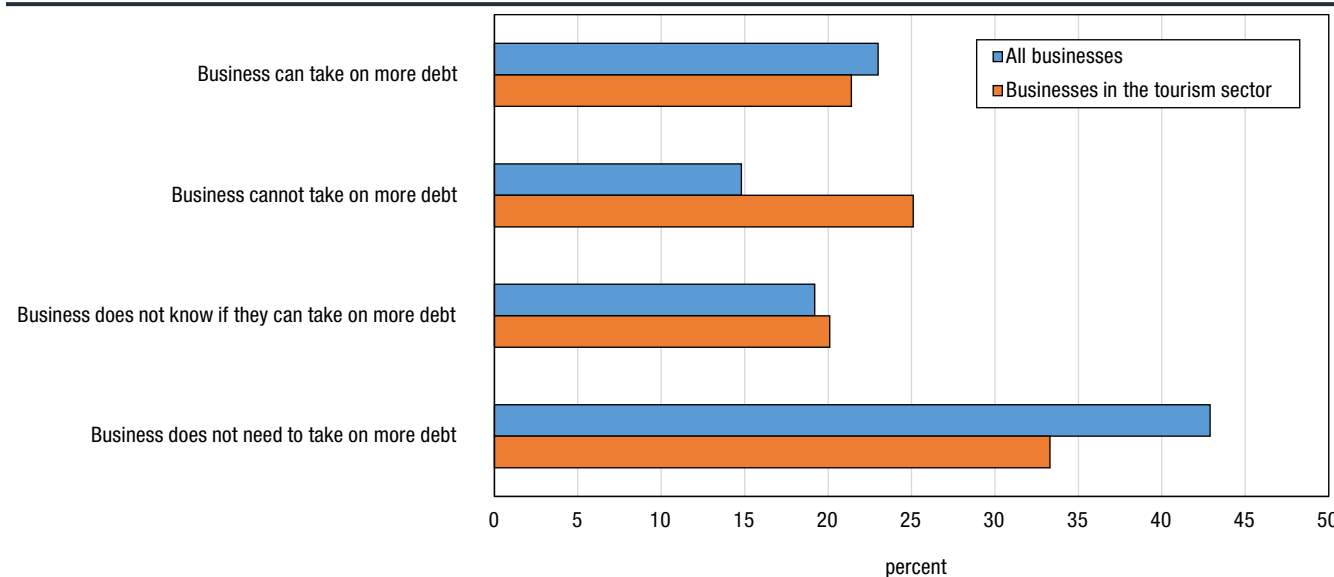
Nearly half (46.0%) of businesses in tourism can continue to operate at their current level of revenue and expenditures for 12 months or more before considering laying off staff. Just over one-third (34.4%) of businesses in the tourism sector reported they could continue to operate for less than 12 months before considering laying off staff, while less than one-fifth (19.7%) did not know how long they could continue to operate.

More businesses in the tourism sector cannot take on more debt

Over one-fifth (21.4%) of businesses in the tourism sector reported that they could take on more debt, similar to the proportion of all businesses (23.0%). Conversely, one-quarter (25.1%) of businesses in the tourism sector reported that they did not have the ability to take on more debt. One-third (33.3%) of tourism businesses reported they did not need to take on more debt, compared with over two-fifths (42.9%) of all businesses.



Chart 3
Businesses' ability to take on more debt



Note: Respondents were asked if the business or organization had the ability to take on more debt.
Source: Canadian Survey on Business Conditions, second quarter of 2021 (Table 33-10-0354-01).

Of all businesses and businesses in the tourism sector that could not take on more debt, the most commonly reported reason was the lack of confidence or uncertainty in future sales. Businesses in the tourism sector were more likely to report this reason (72.3%), in comparison to all businesses (56.2%).

The majority (62.4%) of businesses in the tourism sector reported that they had the cash or liquid assets required to operate for the next three months, compared with over three-quarters (75.0%) of all businesses.

Maintaining sufficient cash flow or managing debt was an obstacle expected over the next three months by nearly two-fifths (39.3%) of businesses in the tourism sector, whereas one-fifth (22.2%) of all businesses expected the same.

In response to the challenges experienced by businesses due to the pandemic, various government programs focusing on funding or credit were made available to support businesses. The vast majority (86.9%) of businesses in the tourism industry were approved for or received some form of funding or credit because of the COVID-19 pandemic compared with under three-quarters (73.2%) of all businesses.

Of businesses in the tourism sector that did not access any COVID-19 related funding or credit, nearly two-thirds (65.6%) stated that it was because funding or credit was not needed.



Methodology

From April 1 to May 6, representatives from businesses across Canada were invited to take part in an online questionnaire about how COVID-19 is affecting their business and business expectations moving forward. The Canadian Survey on Business Conditions uses a stratified random sample of business establishments with employees classified by geography, industry sector, and size. An estimation of proportions is done using calibrated weights to calculate the population totals in the domains of interest. The total sample size for this iteration of the survey is 34,169 and results are based on responses from a total of 16,937 businesses, 2,731 of which were in the tourism sector. The total sample size for the last iteration of the survey is 32,400 and results are based on responses from a total of 15,431 businesses, 2,487 of which were in the tourism sector.

References

Statistics Canada. (2021). Canadian Survey on Business Conditions, first quarter of 2021.

Statistics Canada. (2021). Canadian Survey on Business Conditions, second quarter of 2021.