

April – June 2008

Highlights

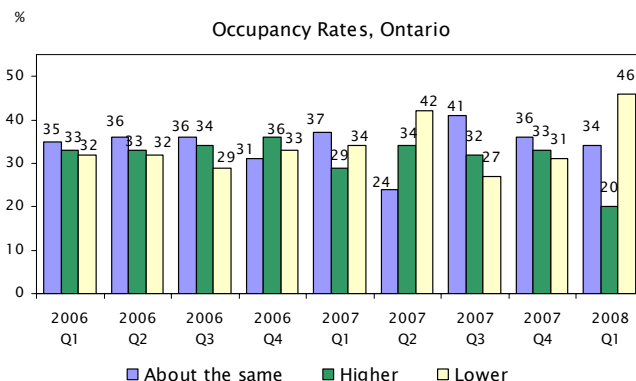
- Ontario's hoteliers indicated that hotel performance in the province in the first quarter of 2008 declined substantially relative to the same period of last year. Canada's hoteliers reported similar results, though somewhat tempered relative to Ontario.
- 26% of Ontario hotel operators reported no business difficulties in the first quarter of 2008, up from 20% in the same quarter of 2007. At the national level, 23% of Canada's hoteliers reported no business difficulties.
- Among those who reported business difficulties in Ontario, exchange rate fluctuations were by far the top impediment listed, followed by the excess room supply and the lack of attractions or complementary facilities in the vicinity. Canada's hoteliers were also concerned about the Canadian exchange rate and excess room supply, but continued to see labour shortages (both unskilled and skilled) as their next most significant business impediments.
- Looking forward to the second quarter, Ontario hoteliers continue to be optimistic about average daily rates but are less optimistic than they were in the second quarter of 2007 in all other areas.

Recent Business Conditions: Q1 2008

In the first quarter of 2008, only 20% of Ontario hoteliers reported higher occupancy rates than in the same period of last year (the lowest level since the survey began in 2005), while a full 46% reported that occupancy rates were lower. About a third, or 34% reported that occupancy rates were about the same.

This resulted in a balance of opinion¹ of -26 percentage points, 28 and 22 points below the previous quarter and the same quarter of 2007, respectively.

¹ Note: Balance of opinion is the difference between the percentage of respondents who report improved business conditions (higher) and those who report deteriorating conditions (lower). Due to rounding, percentages may not add up.



Though still noticeably less optimistic than in the previous quarter and in the first quarter of last year, Canadian hoteliers appear to be fairing somewhat better than their Ontario counterparts. A few more hoteliers from across Canada are reporting higher occupancy rates (25% vs. 20% in Ontario) and fewer reported lower occupancy rates (44% vs. 46% in Ontario).

The resulting balance of opinion of Canadian hoteliers was -18 percentage points, 20 points below the previous quarter and -34 from that of the first quarter of 2007.

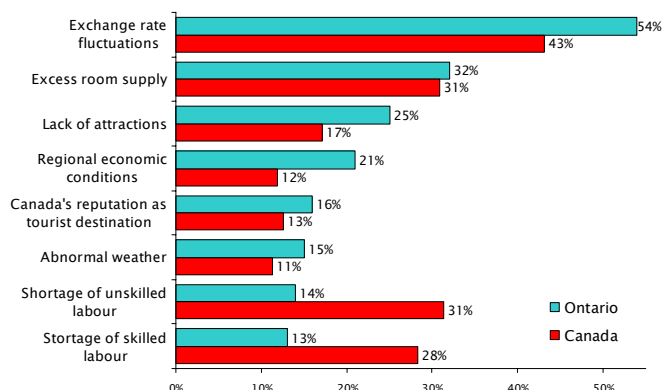
Business Impediments

In the first quarter of 2008, 26% of hotel operators in Ontario reported no business impediments. This is up 5 and 6 points, respectively, from the previous quarter and the same period last year.

Similarly, 23% of Canada's hotel operators also reported no specific difficulties in the first quarter of 2008, up slightly from 21% in the previous quarter but down from 24% in the same period last year.

The exchange rate continues to be the most significant business impediment reported by Ontario hoteliers. Excess room supply and the lack of attractions/ complementary facilities were their second and third most frequently mentioned business impediments.

**Business Impediments,
Ontario and Canada (Q1 2008)**



Exchange rate fluctuations, which were added as a specific business impediment on the survey in the first quarter of 2007, have increased steadily as a concern for Ontario hoteliers - from an initial low of 23% to the current 54%. Excess room capacity has been mentioned by at least 30% of Ontario hoteliers in each of the previous five quarters, while lack of attractions has been mentioned by between 24% and 42% over the last two years. The concern over regional economic conditions has fluctuated in Ontario since being added to the survey in the first quarter of 2007, but now stands at 21%.

Canada's hoteliers also reported exchange rate fluctuations as their top business impediment (43%), though the issue appeared a little less critical than among Ontario hoteliers. They share Ontario's concern about excess room supply. The shortage of unskilled and skilled labour, however, continued to be major impediments in the first quarter for Canadian hoteliers – much more so than for Ontario hoteliers. Meanwhile, the lack of attractions and complementary facilities, and Canada's reputation as a tourist destination appear to be less significant issues for Canadian hoteliers than for those in Ontario.

Of note for hoteliers both from Ontario and across Canada are the impediments that appear to have dropped off the radar. Few hotel operators mentioned security concerns or public health concerns.

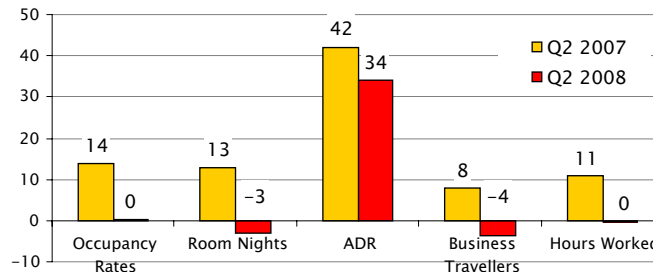
Future Business Conditions: Q2 2008

Comparison of Canada and Ontario

Looking ahead to the second quarter of 2008, both Canadian and Ontario hotel operators are less optimistic about business conditions than they were in the same quarter of 2007.

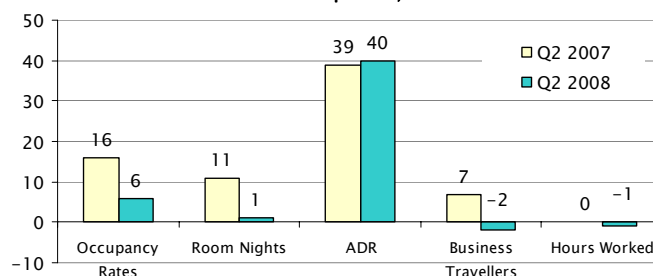
Compared to expectations for the second quarter of 2007, Canadian hoteliers are less optimistic in all areas (see chart below), with the proportion of hoteliers expecting to see a deterioration of conditions across all categories exceeding those who expect improvements, as shown by the overall negative, or declining, balance of opinion by Canadian hoteliers.

Balance of Opinion, Canada



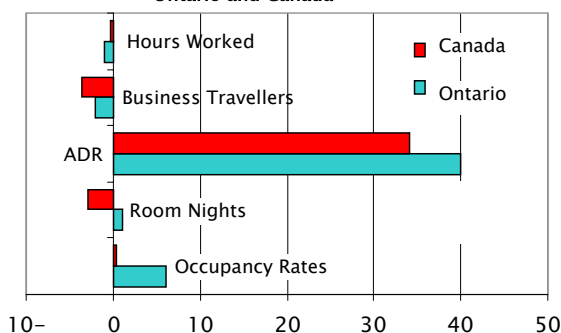
Ontario hoteliers are also not very optimistic about the second quarter of 2008 compared to the same quarter of last year (see chart below). A similar proportion of Ontario hoteliers expect to see improvements in terms of average daily rates though a greater proportion expect to see a deterioration in all other areas relative to the same quarter of last year.

Balance of Opinion, Ontario



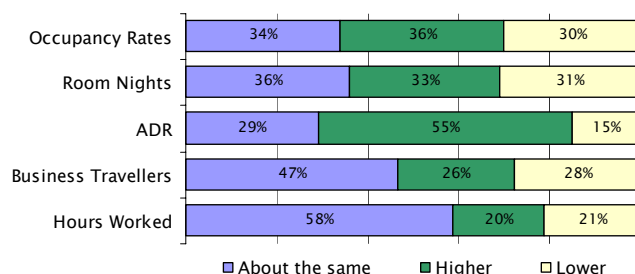
The ADR remains the one area of optimism for Canadian hoteliers and even more so for their Ontario counterparts. Relative to Canadian hoteliers overall, Ontario hoteliers are more optimistic about occupancy rates, room nights, and less pessimistic about business travellers.

Balance of opinion in Q2 2008,
Ontario and Canada



Detailed Ontario Responses

Anticipated Business Conditions
for Q2 2008, Ontario



Occupancy Rates

- 36% of Ontario hoteliers (up from 22% last quarter) are expecting occupancy rates to increase in the second quarter, 30% are expecting them to decrease (down from 37% last quarter). This outlook is less optimistic than that expressed by hotel operators last year, when 34% were expecting an increase and only 18% were expecting a decrease.
- The positive balance of opinion on occupancy rates (+6) for the second quarter of 2008 marks an improvement over the previous quarter (-15), but a decline from the second quarter of last year (+16).

Room Nights

- 33% (up from 23% last quarter) are expecting the number of room nights to rise in the second quarter, while 31% are expecting them to decline (down from 35% last quarter). The outlook is considerably more negative than the same quarter of last year, when 30% of Ontario hoteliers were expecting more room nights and only 19% were expecting fewer.
- The resulting neutral balance of opinion (+2) on room nights marks an improvement over the -12 point balance seen in the previous quarter, but a noticeable decline from the second quarter of 2007 (+11).

Average Daily Rate

- Expectations around ADR remain strong, with a full 55% of Ontario hoteliers expecting to see higher rates in the second quarter of 2008 – up from 43% in the previous quarter and from 48% in the same quarter of last year. 15% reported expectations of lower rates in the coming quarter, down from 19% last quarter but up from just 9% in the same quarter of last year.
- At +40 percentage points, the balance of opinion is up considerably from last quarter's 24 points but on par with the second quarter of 2007 (+39).

Business Travellers

- About half of Ontario hoteliers (47%) don't expect much change in terms of business travellers in the second quarter of 2008. 26% expect to see more business travellers during the coming quarter, while a similar 28% expect to see fewer of them.
- The resulting negative balance of opinion (-2) is up slightly from the previous quarter (-5 points) but down from the same quarter of 2007 (+7 points).

Hours Worked

- 58% of Ontario hoteliers expect hours worked to remain the same in the second quarter of 2008, while 20% expect hours worked to increase and 21% expect them to decrease.
- The current neutral balance of opinion (-1) marks an improvement in conditions from the previous quarter (-11) but is on par with the neutral balance seen in the same quarter in 2007.

NOTE: The Business Conditions Survey of around 1,500 businesses is a quarterly survey conducted by Statistics Canada and funded by the Ontario Ministry of Tourism, the Canadian Tourism Commission and Statistics Canada. Results are based on survey questionnaires sent to traveller accommodation providers across Canada.