ECONOMIC VIEWPOINT

Harnessing Domestic Tourism to Strengthen the Service Sector

By Sonny Scarfone, Principal Economist

HIGHLIGHTS

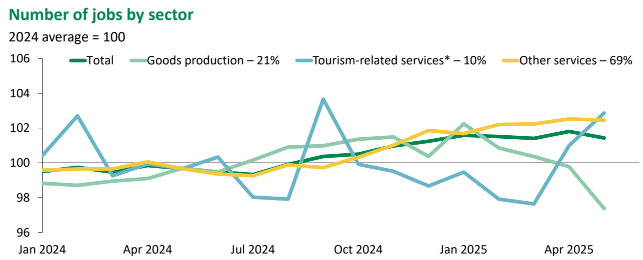
- Persistent economic uncertainty is a threat to the services sector, which has proven to be resilient thus far. Increased domestic tourism could act as a stabilizing force by offsetting weaker performance in industries that are more exposed to US trade.
- Canada has traditionally recorded a travel services trade deficit, but this trend recently reversed, due in large part to a sharp rise in international students. Given the current geopolitical climate and relatively weak loonie, Canada has the opportunity to further improve its travel trade balance in the coming quarters by encouraging domestic tourism and attracting more international visitors.
- Tourism contributes approximately $10B to Canada's GDP. If half of the Quebec residents who plan on cancelling their trips to the United States were to redirect their spending domestically, the resulting boost—factoring in indirect economic effects—could add an estimated $900M to Canada's GDP. And if this change in behaviour were to last, it could support about 11,000 jobs nation-wide.
- However, domestic tourism development could be held back by capacity limits in some areas. The main challenges include the uneven availability of labour from one region to the next, and the capacity limits of local infrastructure.

Uncertainty sparked by the US trade war is rocking the global economy. In Canada, the manufacturing sector is the most directly exposed to higher tariffs, but downstream service industries—such as accommodation, food services, and arts, entertainment and recreation—could eventually feel the impact. Affected households will reduce their spending, while others fearing a more generalized economic contraction may try to step up their savings rate.

A pullback in consumer spending would make these service sectors all the more vulnerable. But the Quebec job market was still holding up as of May and these sectors have remained remarkably resilient so far this year (graph 1). **This summer, one factor may help mitigate the anticipated slowdown in certain service sectors: the revised vacation plans of Canadians and Quebecers.**

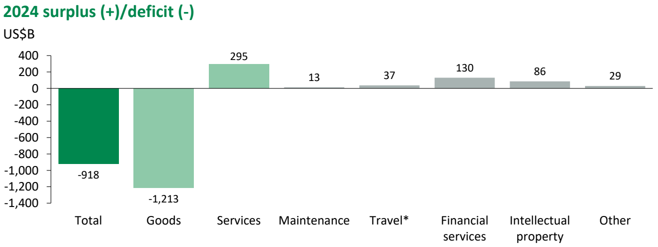
American protectionist rhetoric often focuses solely on the trade deficit in goods, ignoring a crucial dimension of international trade: the United States maintains a substantial trade surplus in services with the rest of the world. Last year, this surplus reached US$295B, with US$37B from the travel services sector, which includes tourism (graph 2 on page 2). According to Quebec's Ministry of Tourism, Quebecers spent C$4B in the United States in 2023, compared to C$2.1B spent by Americans in the province. This difference typically accounts for about 4% of the US travel services trade surplus.

Graph 1
Quebec's Services Sectors Are Holding Up Well



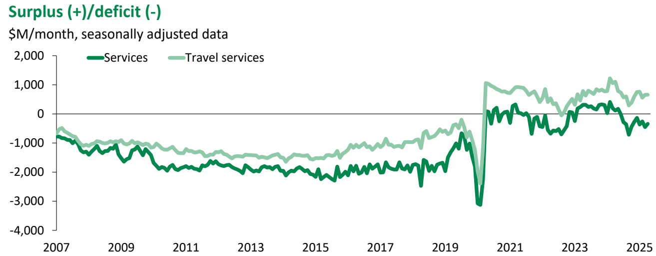
* Tourism-related services include information, culture and recreation, accommodation, and food services. However, these services are not exclusively offered to tourists.
Statistics Canada and Desjardins Economic Studies

Graph 2
The United States Has a Positive Services Trade Balance



* Defined by the Bureau of Economic Analysis as including "all travel, which includes 1) business travel, which encompasses expenses incurred by various types of short-term workers, and 2) personal travel, which covers health and education related trips."
Bureau of Economic Analysis and Desjardins Economic Studies

Graph 3
Canada Has Posted a Travel Services Trade Surplus Since the Pandemic



Statistics Canada and Desjardins Economic Studies

The travel choices made by Quebecers and Canadians could help limit cash outflows. Fully 60% of Canadians polled at the end of March said they were considering cancelling or postponing trips to the United States in response to Washington's tariffs (and other unpopular messaging). If Canadians make good on these intentions, the United States will feel the pinch (especially bordering states, Florida and Arizona) and certain sectors of the Canadian economy could benefit. The Federal Reserve Bank of New York echoed this outlook in the April edition of the Beige Book.

The Impact of Tourism on Canada's Services Trade Balance

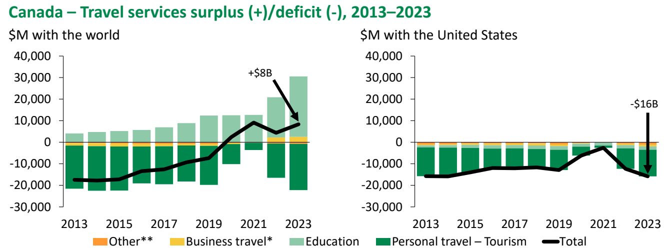
Broadly defined, a tourist can be someone visiting from another country, another province, or simply from outside the region in question. Statistics Canada estimates that tourism contributes about $10B (in 2017 dollars) to Canada's GDP—a figure that has remained relatively stable since 2017, with the exception of the pandemic years.

Tourism is a major driver of economic growth. It fuels a significant value chain, including food services, accommodation, entertainment and transportation, and is considered a form of services trade: spending by foreign tourists in Canada is counted as an export, while the money Canadians spend abroad is considered an import.

Historically, Canada had a trade deficit in services, including those related to travel (a category that encompasses tourism). In other words, Canadians have traditionally spent more money abroad than foreign visitors have spent in Canada. However, this trend has recently reversed, with travel services now contributing positively to the trade balance (graph 3).

This reversal is entirely attributable to the increase in the number of international students coming to Canada and, to a lesser extent, to the increase in temporary foreign workers, whose expenditures are considered service exports if their "centre of economic interest" is outside of Canada (graph 4). In 2023,

Graph 4
A Positive Trade Balance of $24B with the Rest of the World (Excl. US)



* Includes short-term business travel and temporary foreign worker expenditures;
** Crew and healthcare spending.
Statistics Canada and Desjardins Economic Studies

Canada posted an $8B travel services surplus worldwide. This positive trade balance included a massive $28B surplus attributable to international students in Canada, with this amount offset by a $21B deficit related to personal travel, primarily in the form of traditional tourism spending.

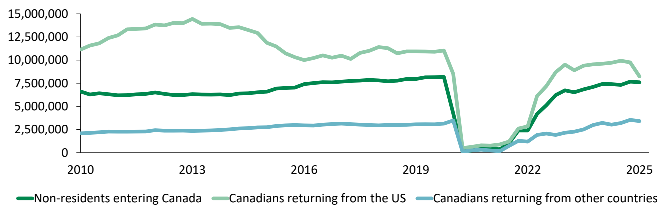
Year after year, Canada runs a deficit in each of the travel services subcomponents with the United States. In 2023, the deficit was $16B, of which $12B was attributable to personal travel. If some of these funds earmarked for US travel were spent in Canada instead, we'd be able to narrow the bilateral tourism gap and support jobs currently threatened by the trade war. While this wouldn't make up for losses in manufacturing, a vital sector for many Quebec regions, an improvement in the services sector would help offset the effects of a broader economic slowdown (see the section on multiplier effects).

Recent Tourism Trends and European Market Opportunities

Cross-border round-trip travel fell by 15% in the first quarter of 2025, with reduced activity beginning at the first signs of a potential trade conflict (graph 5 on page 3). Preliminary spring data indicate that the year-over-year decline has been even steeper: according to Statistics Canada's leading indicator, the

Graph 5
Canadians Were Quick to Revise Their Plans in Q1

Inbound travel to Canada
Units, seasonally adjusted data by quarter



Statistics Canada and Desjardins Economic Studies

number of Canadian residents returning from the United States by car fell by 38% in May 2025 relative to the same month in 2024.

Air travel to the United States has so far declined more modestly, mainly because international travel is often planned months in advance. But according to OAG firm, as of the end of March, Canadian flight bookings to the United States for the April to September period were down 70% compared to last year. In response, several airlines have scaled back flight frequencies on select routes. This decline in US-bound tourism is also reflected in lower accommodation and airfare prices.

Data from Statistics Canada show that the number of American tourists coming to Canada has also fallen in 2025, though to a lesser extent. Tourisme Montréal expects a slight pullback from this segment in the coming months. While several factors may account for this downward trend, it likely reflects, above all, increased caution among US consumers and the impact of sustained inflation on household budgets in recent years.

There's strong potential for increased tourism from other parts of the world, especially Europe. As the United States enacts more restrictive border measures, some European travelers may view Canada as an attractive alternative—particularly given the recent appreciation of the euro, which has enhanced their purchasing power. Similar patterns could emerge in key Asian markets, which have also been targeted by the US administration's protectionist stance. Over the past 15 years, direct air links between Canada and overseas destinations have expanded, connecting Canadian cities with numerous urban centres across Asia, Africa and Latin America.

The Multiplier Effect: Cascading Economic Benefits and Labour Market Strength

Whenever money is injected into the economy, it creates both direct benefits within the initial sector and indirect benefits that spread throughout the supply chain. The tourism sector is no exception. When Canadians redirect their vacation budgets to the local economy, the positive ripple effect extends well beyond the tourism sector itself. The same principle is why a slowdown in manufacturing can disrupt other parts of the economy. Economic multipliers are commonly used to estimate the broader impact of additional spending, particularly on employment.

Let's do the math for tourism, assuming that Quebecers share the same reservations about travelling to the United States as the Canadian respondents to the previously mentioned survey. If 60% of Quebecers decided to cancel their stateside vacations, our neighbours to the south would be deprived of roughly $2.4B. Some of these Quebecers would choose to visit other international destinations instead, while others would opt to stay in Quebec or visit other parts of Canada. Then there are consumers who would redirect these funds to their savings or spend more on local entertainment. From an economic standpoint (GDP and jobs), local spending can have an impact comparable to that of domestic tourism.

Since we don't have historical data allowing us to estimate which proportion of these funds would actually remain in Canada, let's assume that half of the unspent $2.4B originally destined for the United States is redirected into the Canadian economy. Let's also assume this money is allocated to typical tourist expenditures, such as accommodation, dining, transportation, entertainment and various other services.

The results (table 1) suggest that repatriating these expenditures could support about 11,000 jobs and add nearly $900M to Canada's GDP. Although a portion of this spending would occur outside Quebec, it's reasonable to expect a comparable pattern in other provinces. Residents of Nova Scotia, Ontario and other parts of Canada would proportionally increase how much they spend in Quebec, thereby rebalancing the trade between regions to a certain degree.

Table 1
Direct and Indirect Economic Impacts* of an Increase in Domestic Tourism by Quebecers

Expense category	Additional spending	GDP	Jobs**
Accommodation	$427M	$320M	3,200
Food and beverages	$317M	$223M	3,800
Recreation and entertainment	$143M	$107M	1,500
Transportation***	$162M	$116M	900
Clothing, gifts and other	$151M	$132M	1,700
Total	**$1.2B**	**$898M**	**11,100**

* Include the direct effects of additional tourism spending and the indirect effects resulting from increased supplier activity. Induced effects were not taken into account due to their contested conceptual foundations; ** Employment data adjusted to reflect average wage growth by industry since 2021; *** NAICS code 481 (air transportation) was used, resulting in a more conservative reading as its multipliers are lower than for transportation at large.

Statistics Canada and Desjardins Economic Studies

Repatriating Tourism Spending: A Capacity Challenge in Some Quebec Regions

These projected economic benefits rest on the premise that there is sufficient unused capacity within the tourism sector. In other words, for these effects to materialize, existing infrastructure (hotels, restaurants, etc.) and labour resources must be capable of accommodating increased demand. This could pose a challenge in certain regions of Quebec.

During peak season, many destinations like Charlevoix, Îles-de-la-Madeleine and Gaspésie reach near-full capacity (Gaspésie [in French only] having expanded its offer since the pandemic). According to the Survey on Québec Accomodation Establishment Occupancy conducted by the Institut de la statistique du Québec, hotel occupancy rates regularly exceed 80% during the summer in these regions, limiting their ability to accommodate additional visitors. Pressure on supply often translates into higher prices, which in turn makes it harder for local tourists to holiday in their home province.

Several regions are also contending with labour shortages that hinder their ability to expand their tourism offer. Tourism services are for the most part labour-intensive and the industry relies on seasonal workers who may be reluctant to move for work without financial incentives. As a result, many businesses are forced to limit their service capacity. This challenge could persist, especially as some occupations were recently excluded from the facilitated labour market impact assessment process for temporary foreign workers.

Conclusion

This summer, Quebec and Canada have the opportunity to narrow their trade deficits and partially shield their service sectors from headwinds. The economic multipliers presented in this Economic Viewpoint illustrate how local spending can strengthen the economy and mitigate the impact of a projected downturn.

What remains to be seen is if local tourism infrastructure can accommodate increased demand. The effects of capacity constraints are difficult to quantify and will vary by region. However, tourism is a form of consumption. If there are no available accommodations at popular destinations, many Quebecers and Canadians may choose to spend their dollars closer to home. Data from OpenTable indicates that restaurants in Canada's major cities have recorded strong sales so far in 2025. **Despite prevailing economic challenges, the services sector continues to demonstrate resilience. Redirecting a portion of tourism spending to the domestic market could provide the services sector with valuable support in the months ahead.**

Quebec and Canada have a lot to offer. Much like in 2020–2021, global forces are encouraging travel within our borders. And this time it's not because of public health restrictions, but by choice.