Packed Toronto Hotels Herald Ontario Economic Revival

By Theophilos Argitis, Ari Altstedter and Greg Quinn | Nov 25, 2014 10:39 AM ET | - Comments Email Print

Source: Delta Toronto via Bloomberg

The Delta Toronto hotel stands in Toronto, Canada.

Delta Toronto staff race up and down elevators making final preparations for the 46-story hotel's grand opening, stocking rooms, wiping down the lobby's oak-paneled walls and polishing the terrazzo-tiled floor.

In the hotel's restaurant, chefs in black smocks and pinstripe aprons do practice runs in an open kitchen, producing bison tartare and fregola sarda.

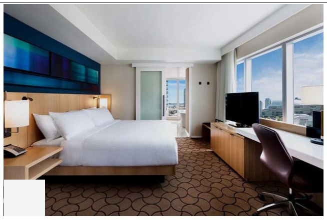
The hustle and bustle at the Toronto Delta ahead of its Nov. 27 opening is part of a boom for Ontario's hotels and restaurants that has seen them add more jobs than any other sector in any province this year. It's the clearest illustration yet of how a weakening Canadian dollar is helping Ontario reverse a decade of relative decline that has seen its dominance over the national economy wane.

"If you look at Toronto and the region, and Ontario in general, it's the perfect time, it's the perfect place," said Charles McKee, vice president of marketing at closely held Delta Hotels and Resorts, which will employ 350 workers at its new hotel near the Air Canada Centre, where the Toronto Maple Leafs play hockey.

Ontario's accommodation industry added a record 41,700 jobs this year, accounting for about one-fifth of all new positions created in Canada. A weaker dollar is helping. The currency, nicknamed the loonie, is down 11 percent versus the greenback since 2012 and traded this month at the lowest in five years, making U.S. travel more expensive for Canadians and boosting the appeal of local destinations. The number of trips by Canadians to the U.S. fell 4.8 percent this year.

Currency History

Hotel occupancy rates in Ontario rose 3.5 percentage points to 75 percent this year through September, provincial government data show. Rates in downtown Toronto are up 5.3 points to 88 percent.



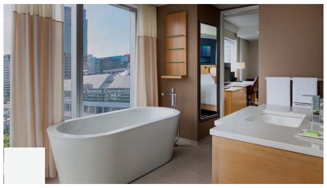
Source: Delta Toronto via Bloomberg

A room at the Delta Hotel is seen in Toronto, Canada.

If history is any guide, the weaker currency will continue to boost Ontario, and not just accommodation. Between 1991 and 2002, a period during which the Canadian dollar fell to record lows, Ontario grew more quickly than the national average in nine of 11 years and manufacturing employment levels rose to records.

There are signs of more good news. Honda Motor Co. said Nov. 6 it will invest about C$857 million ($759 million) over three years in vehicle assembly technology at its facility in Alliston, Ontario. China's Huawei Technologies Co. Ltd. also unveiled this month C$210 million in new investment in the province. According to surveys of businesses in Canada taken earlier this year, capital expenditures in Ontario will grow more quickly than the national average in 2014, led by a surge in investment by Ontario's manufacturers.

Converging Growth



Source: Delta Toronto via Bloomberg

The bathroom of a room at the Delta Toronto hotel is seen in Toronto, Canada.

Canada's largest province has generated more than half of all employment gains in Canada this year and has seen its jobless rate fall last month to the national average for the first time since 2006. The Bank of Montreal estimates Ontario's growth will converge with the national pace by 2015 for only the second time since 2002.

Retail sales gained 0.8 percent in September, with Ontario, Alberta and Quebec accounting for most of the increase, the government statistics agency today.

Even manufacturing, where employment is little changed from 2009 recession levels, showed some life last month. Factories added 32,900 jobs in October, the fifth-biggest monthly gain since at least 1976.

"The big factor for Ontario is we are starting to see strength in external demand for stuff other than just energy products," Nathan Janzen, an economist at Royal Bank of Canada in Toronto, said in a telephone interview. "That typically is a good thing for Ontario."

Traditional Powerhouse

Companies such as Cervus Equipment Corp. are seeing an opportunity. The Calgary-based operator of farm and construction-equipment dealerships acquired a group of Ontario truck dealers in August, allowing them to tap into the pick-up in manufacturing and lower gasoline prices.

"The weaker Canadian dollar is certainly more of an advantage for manufacturers and therefore trucking," Graham Drake, the company's chief executive officer, said in a telephone interview. "There is more of a positive mood and sentiment in Ontario than there probably was a year or two years ago."

The recent pick up couldn't come at a better time for the embattled province. The traditional powerhouse of Canada's economy for most of the nation's history has watched over the past decade as economic power shifted with the global commodity boom westward to oil-rich Alberta.

In 2002, Ontario's economy was almost 50 percent larger than the combined outputs of British Columbia, Alberta and Saskatchewan. That's dwindled to just 7 percent larger.

Political Satisfaction

The big culprit has been the currency, which has a disproportionate effect on Ontario because of the province's reliance on services and manufacturing. Many Ontario companies became uncompetitive as the rush of capital to Alberta's booming energy sector helped fuel a more than 70 percent gain in the dollar to record highs.

Manufacturing, which in Canada is primarily based in Ontario and Quebec, was hit particularly hard. After touching a record 1.1 million factory jobs in 2002, manufacturing employment in the province has declined more than 30 percent, and in September fell to a more than four-decade low.

Political indicators too are pointing to a pick-up in the Ontario economy. Levels of satisfaction among the province's residents with the governing federal Conservative Party has surged since July and is at the highest level in a year, according to Nanos Research survey data.

'Economic Mood'

"If the Ontario economic mood is not as muted as it has been in the past that would be good for the incumbent government," said Nik Nanos, chairman of the Ottawa-based polling company.

To be sure, Ontario's recovery is not guaranteed. The province struggles with mounting debt fueled by the 2008-2009 recession. Finance Minister Charles Sousa reiterated last week Ontario is on track to eliminate a C$12.5 billion budget deficit in the 2017-18 fiscal year. The measures needed to close the gap may slow growth. The manufacturing landscape has also changed, with fewer opportunities in the U.S., even with the weaker dollar, said Livio Di Matteo, an economics professor at Lakehead University in Thunder Bay, Ontario.

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The lower dollar “will provide a bit of a short-term boost,” said Di Matteo, who recently co-authored a report on the Ontario economy for the Fraser Institute. “The question is whether that will be sustained into a longer-term reboot of the Ontarian economy.”

‘Inward Looking’

“The U.S. over the last decade has become more inward looking and that has made it more difficult for us to trade with them,” he said, adding the key is for Ontario to diversify its export markets.

Even as a skeptic, Di Matteo won’t need to look too far to see the impact of a booming accommodation sector. Delta is planning new hotels in his town of Thunder Bay next year and Burlington in 2018. The chain cut the ribbon in September on a hotel in Waterloo, the high-tech home of BlackBerry Ltd. (BB)

The Toronto-based company owned by British Columbia Investment Management Corp., is increasing its room stock in Ontario relative to the rest of the country to 28 percent, from 24 percent.

“Nowhere else in North America have we seen the positive growth,” said Delta’s McKee.

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