



# Sectoral Profile

## Accommodation and Food Services

Ontario

2015–2017



Sectoral Profiles provide an overview of recent labour market developments and outlooks for some of the key industries in various regions of the country.

### ACCOMMODATION AND FOOD SERVICES: A ROBUST INDUSTRY

- Industry employment growth was high between 2004 and 2014, however hourly wages were below Ontario's average for all industries
- Operating costs, consumer income, and tourism all impact industry growth
- Given the gradual global economic recovery and the lower value of the CAD/USD exchange rate, the industry employment outlook is fairly positive, with moderate growth expected over the 2015 to 2017 time period. However, high operating costs may slightly dampen employment growth

Accommodation and food services (AFS) is a large industry in Ontario, employing about 444,000 people,<sup>1</sup> and contributing to 1.95% of Ontario's gross domestic product (GDP) in 2014.<sup>2</sup> The following two subsectors make up the AFS industry: i) accommodation services, which is comprised of traveller accommodation, including casinos, RV parks and recreational camps, and rooming and boarding houses, and ii) food services and drinking places, which includes full-service restaurants, limited-service eating places, alcoholic beverage drinking places and special food services (including caterers). Food services and drinking places is the larger of the two subsectors, representing over 80% of employment in the overall AFS industry.<sup>3</sup>

<sup>1</sup> Labour Force Survey, 2015

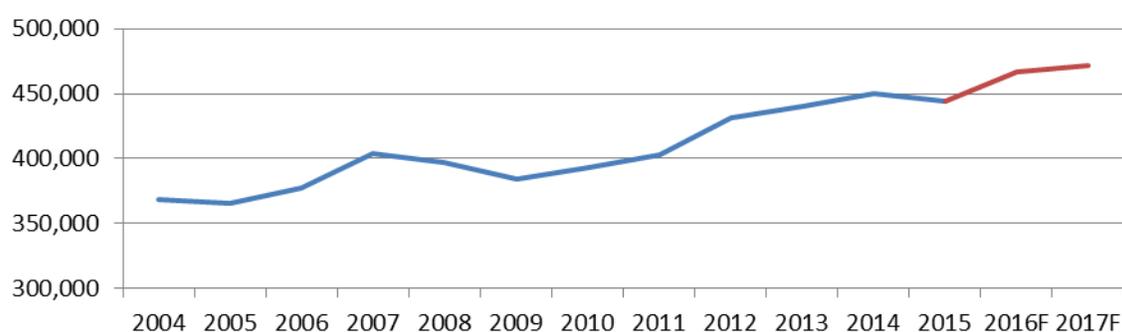
<sup>2</sup> Statistics Canada, CANSIM Tables 282-0088 & 379-0028

<sup>3</sup> Labour Force Survey

## Employment growth in accommodation and food services was strong over the past decade

The AFS industry recorded strong employment growth in Ontario over the past decade, increasing by 22.4% between 2004 and 2014;<sup>4</sup> in comparison, total employment for all industries increased by 8.9% during the same time frame. The pace of growth in the AFS sector was surpassed only by professional, scientific, and technical services; health care and social assistance; educational services; and construction. Despite the drop in employment during the 2008-2009 recession, the AFS industry has shown to be fairly robust in Ontario (see Figure 1).<sup>5</sup> In particular, the food and drinking subsector experienced stronger growth over the past decade with employment increasing by 24.0% over the 2004 to 2014 period, while employment in the accommodation services subsector increased by 14.3% over the same time. Unemployment in the AFS industry dropped from 7.4% to 5.9% over the past decade. In comparison, the total unemployment rate across industries was 6.8% in 2004 and 7.3% in 2014.<sup>6</sup>

**Figure 1: Employment in Accommodation and Food Services, Ontario, 2004-2017F**



Source: Statistics Canada, CANSIM 282-0008

## Average hourly wages in AFS remain low relative to other industries

Although unemployment was low in the AFS industry, indicating high demand, wages were low compared to other industries; the hourly wage for the AFS industry was \$13.81 in 2014, compared with \$24.82 for all industries in Ontario.<sup>7</sup> The lower wage can be attributed to the lower skill level requirements for the main occupations in the AFS industry.<sup>8</sup> The following occupations make up slightly over 75% of the workforce in the AFS industry:

- Food counter attendants, kitchen helpers and related occupations (NOC 6641)
- Food and beverage servers (NOC 6453)
- Cooks (NOC 6242)
- Restaurant and food service managers (NOC 0631)
- Cashiers (NOC 6611)
- Chefs (NOC 6241)
- Light duty cleaners (NOC 6661)

<sup>4</sup> Statistics Canada, CANSIM Table 282-0008

<sup>5</sup> Statistics Canada, CANSIM Table 282-0008

<sup>6</sup> Statistics Canada, CANSIM Table 282-0008

<sup>7</sup> Statistics Canada, CANSIM Table 282-0072

<sup>8</sup> Most occupations in the AFS industry require no formal education and tend to require only on-the-job training.

Most of these occupations are characterised by high employee turnover, generating steady demand for workers in the industry. Cooks were one of the top occupational groups employing temporary foreign workers from 2007 to 2012, signalling a high provincial demand for these workers.<sup>9</sup>

Due to the lower educational and skill requirements relative to other industries, the AFS industry is highly accessible to younger workers; in 2014, 42.3% of people employed in the AFS industry were between the ages of 15 to 24, versus about 15% for all industries.<sup>10</sup> The younger workforce is attracted to the non-traditional hours and the seasonality of many jobs, allowing youth to work outside of typical school hours. In fact, 42.3% of those employed in AFS are in part-time roles, versus 19.5% of all industries in Ontario.<sup>11</sup>

## Operating costs, consumer income, and tourism all drive industry growth

### Operating Costs

Although the average real wage in the AFS industry is lower compared to all industries, it grew at a faster rate. Between 2004 and 2014, the average real<sup>12</sup> hourly wage in the AFS industry increased by 14.6%, versus 8.2% for all industries.<sup>13</sup> Since the AFS industry has a higher proportion of minimum-wage earners compared to other industries,<sup>14</sup> its wage growth can mainly be attributed to increases in the real minimum wage, which rose by 30.8% over the same time period.<sup>15</sup> Wages and benefits made up 7.2%<sup>16</sup> of total expenses within the AFS industry in 2012.

Purchases, materials and sub-contracts made up 34% of total expenses in the AFS industry in 2012. In Q3 of 2015, 75% of restaurant operators in Canada reported high food prices to be of primary concern in terms of impact to business.<sup>17</sup> Between 2007 and 2012, food price inflation was higher than CPI inflation, meaning that input prices of food were rising faster than overall prices.<sup>18</sup> This was a global trend, driven by a number of factors, including an increase in global demand, low supply and reserves of grains, high energy and fertilizer prices, and poor weather conditions.<sup>19</sup> Continued high food prices may result in challenges to industry growth and place downward pressure on labour demand over the 2015 to 2017 period.

### Consumer Income

Employment growth in the AFS industry is also dependent on the strength of the economy and disposable income levels. As the economy slows or disposable income drops, Canadians are less likely to conduct leisure

<sup>9</sup> Labour Market Opinion (LMO) Statistics published by ESDC, Retrieved from: [http://www.esdc.gc.ca/eng/jobs/foreign\\_workers/lmo\\_statistics/index.shtml](http://www.esdc.gc.ca/eng/jobs/foreign_workers/lmo_statistics/index.shtml)

<sup>10</sup> Labour Force Survey

<sup>11</sup> Ibid

<sup>12</sup> Real wages refers to wages that have been adjusted for inflation. In this case, wages were adjusted using the Consumer Price Index (CPI)

<sup>13</sup> Statistics Canada, CANSIM Table 282-0072 and Table 326-0021

<sup>14</sup> Ibid

<sup>15</sup> 2014 Minimum Wage Advisory Panel. (January 27, 2014). *Ontario Ministry of Labour*. Retrieved from: <http://www.labour.gov.on.ca/english/es/pubs/mwap/>

<sup>16</sup> Firms with annual revenues of \$30,000 - \$5,000,000

<sup>17</sup> Elliot, C. (October 21, 2015). Restaurant Outlook Survey. *Restaurants Canada*. Retrieved from: [https://www.restaurantscanada.org/Portals/0/Documents/ROS\\_Survey\\_Topline\\_2015\\_Q3.pdf](https://www.restaurantscanada.org/Portals/0/Documents/ROS_Survey_Topline_2015_Q3.pdf)

<sup>18</sup> Rollin, A. (June 27, 2013). The Increase in Food Prices Between 2007 and 2012. *Statistics Canada*. Retrieved from: <http://www.statcan.gc.ca/pub/11-626-x/11-626-x2013027-eng.htm>

<sup>19</sup> Ibid.

activities such as eating and sleeping outside of the home. In Canada, the household debt-to-income ratio is at all-time highs, and has topped 150%,<sup>20</sup> indicating that consumers have high levels of debt relative to their income. During 2016 and 2017, household spending may be curbed to replenish savings and reduce debt. This should reduce leisure-related spending and constrain employment growth in the industry.

*Tourism*

The value of the CAD/USD exchange rate and the strength of the economies of other nations - particularly the U.S. due to its proximity to Ontario - drive much of the growth in tourism in Ontario. A strong correlation exists between the CAD/USD exchange rate and the number of U.S. tourists visiting Ontario, as seen in Figure 2.<sup>21</sup> A lower CAD/USD exchange rate provides an incentive for visits to Canada. It also encourages Canadians to take domestic trips rather than travel abroad. Tourism spending on accommodation and food and beverage services in Ontario has improved as of late; however the number of U.S. visitors to Ontario is still well below levels seen in the early 2000's. Given the recent depreciation of the Canadian dollar and the strengthening US economy, we expect an increase in tourism over 2016 and 2017, which will positively affect Ontario's AFS industry.

**Figure 2: Number of U.S. visitors to Ontario and CAD/USD exchange rate, 2004-2017F**



Source: Number of Visitors – Statistics Canada CANSIM 427-0005, \*2015 data is an Jan-Oct average & CAD/USD Exchange Rate – Statistics Canada CANSIM 176-0064, Consensus Forecasts

*Automation*

The increased adoption of technology in the AFS industry may start to impact industry employment in the forecast period. To attract more paying customers to an industry facing slowing growth, McDonald’s Canada plans to introduce self-serve kiosks offering more customization options to restaurants throughout 2015 to

<sup>20</sup> Statistics Canada, CANSIM Table 378-0122

<sup>21</sup> Statistics Canada, CANSIM Table 427-0005

2017. The move is expected to add 15,000 jobs across Canada.<sup>22</sup> While McDonald's does not anticipate any layoffs due to these kiosks, there may be significant changes to this industry if other restaurants begin to implement this technology.

## Sector Outlook

Increasing operating costs, moderate growth in consumer spending, and the anticipated increase in U.S. tourism will all impact the growth of the AFS industry in Ontario. As a result, we maintain a fairly positive employment outlook for this industry in 2016 and 2017, although growth is expected to be lower than recent rates.

## Local trends in the AFS industry

Average firm size in the AFS industry varies depending on the subsector. Within the food services and drinking places subsector, employment is more highly concentrated in smaller organizations. This subsector is characterized by high turnover, with many franchises and small enterprises opening and closing across all economic regions. In contrast, the accommodation services subsector is characterized by larger organizations and low business turnover. The Toronto economic region accounts for about 48% of employment, followed by Hamilton-Niagara (10%), Ottawa (10%) and Kitchener-Waterloo-Barrie (10%).

In Ontario, about 65% of the largest AFS businesses (500+ employees) are located in the **Toronto** economic region. Toronto hosts many restaurants, drinking places, accommodations, and AFS headquarters. It is also a popular destination for conferences and tourists. This region showed the strongest AFS employment growth over the past decade relative to the other economic regions, and is expected to be a leader in growth over the next few years.

The **Hamilton-Niagara Peninsula** economic region is a popular tourist destination, with many restaurants, drinking establishments, and lodging options, particularly in the Niagara Falls region. Due to the proximity to the U.S., the share of U.S. visitors is high. As a result, tourism in this region is particularly susceptible to changes in the CAD/USD exchange rate and the strength of the U.S. economy, and should benefit from improvements in both factors over the next few years.

The economic region of **Ottawa** is home to tourist attractions such as the parliament building, national museums, outdoor sports/activities and is a popular conference destination. Based on recent hotel occupancy rates, the Ottawa-Gatineau Hotel Association predicted that tourism numbers would remain relatively flat until 2017. In addition, weakness in federal public sector employment growth could lead to some restraint in leisure spending in the area.

The **Muskoka-Kawarthas** and **Stratford-Bruce Peninsula** economic regions are rural areas, and home to a high concentration of cottages, cabins, and RV and campgrounds. The regions attract many tourists interested in

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<sup>22</sup> Strauss, M. (2015, September 30). McDonald's rolls out upscale options. *The Globe and Mail*. Retrieved from <http://www.theglobeandmail.com/report-on-business/mcdonalds-rolls-out-table-service-customized-burgers-in-upscale-shift/article26601464/>

activities related to outdoors/sports.<sup>23</sup> Consequently, tourism thrives in the summer months and falls off significantly thereafter.<sup>24</sup> Some businesses and resorts in the areas have indicated challenges in finding local workers to fill positions, as these regions are often remote, less populated and have an ageing workforce.

The **Windsor-Sarnia** economic region borders the U.S., and therefore has a large share of U.S. visitors, particularly from Michigan. Due to the proximity to the U.S., same day visits are more common than overnight.<sup>25</sup> As the Canadian dollar becomes cheaper relative to the U.S. greenback, day travel in the region should see more activity. However, in recent years, AFS employment has declined in the Windsor—Sarnia economic region, likely as a result of fewer U.S. visitors due to the recession and slow subsequent recovery. The region experienced closure of slot machine gaming at Windsor Raceway, Fort Erie Race Track, and Hiawatha Horse Park in Sarnia in 2012.<sup>26</sup> Caesars Entertainment Corporation, the parent company of Caesars Windsor, filed for bankruptcy in January 2015. Although the company's application for creditor protection hasn't affected the economic region as of yet, this may eventually have an impact on local AFS industry employment.<sup>27</sup>

In the **Northwest and Northeast** economic regions, the largest share of tourists originate from Ontario, although US visitors make up a substantial portion as well. The main attractions are related to boating, fishing and hunting. These two northern regions are home to a very large share of the province's RV parks and recreational camps. Northern Ontario is seeking to boost tourism during the winter months when the industry is hardest hit, which could lead to higher demand in the AFS industry.<sup>28</sup>

The **Kitchener-Waterloo-Barrie** economic region has shown strong employment growth over the past decade, a trend that is expected to continue, albeit at a more moderate pace. This area has a growing population, along with major education institutions and businesses. A number of hotel openings have recently contributed to employment growth in the AFS industry, including Holiday Inn Express, Four Points by Sheraton, The Crowne Plaza, Homewood Suites by Hilton, and The Waterloo Delta.

The economic regions of **Kingston-Pembroke**, and **London** are home to large universities, which help to support demand and supply of workers in food services and drinking places. Employment conditions in the London region are expected to improve slowly over 2016 and 2017, with weak employment growth expected in the AFS industry. The Kingston-Pembroke area has experienced slower population growth and higher unemployment recently, which may negatively affect employment growth in the AFS industry for the forecast period .

**Note:** *In preparing this document, the authors have taken care to provide clients with labour market information that is timely and accurate at the time of publication. Since labour market conditions are dynamic, some of the information presented here may have changed since this document was published. Users are*

<sup>23</sup> <http://www.mtc.gov.on.ca/en/research/rtp/rtp.shtml>

<sup>24</sup> Muskoka Assessment Project. <[http://www.mtc.gov.on.ca/en/publications/PR\\_Muskoka.pdf](http://www.mtc.gov.on.ca/en/publications/PR_Muskoka.pdf)>

<sup>25</sup> <http://www.mtc.gov.on.ca/en/research/rtp/rtp.shtml>

<sup>26</sup> Ontario closing slots in Windsor, Fort Erie and Sarnia. (March 14, 2012). *CTV News*. Retrieved from: <http://kitchener.ctvnews.ca/ontario-closing-slots-in-windsor-fort-erie-and-sarnia-1.781794>

<sup>27</sup> Sacheli, S. (January 15, 2015). Business as usual at Caesars Windsor despite bankruptcy filing in United States. *The Windsor Star*. Retrieved from: <http://blogs.windsorstar.com/news/business-as-usual-at-caesars-windsor-despite-bankruptcy-filing-in-united-states>

<sup>28</sup> Overview of Tourism Opportunities for Northern Ontario (RTO013). (July 2014). *Research Resolutions & Consulting Ltd.* <http://tourismnorthernontario.com/documents/assets/uploads/files/en/14-07-25-research-summary.pdf>

*encouraged to also refer to other sources for additional information on the local economy and labour market. Information contained in this document does not necessarily reflect official policies of Employment and Social Development Canada.*

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