S&P Global Ratings

Hotels, Gaming, and Leisure

Spending on leisure slows under high prices and rates

January 9, 2024

This report does not constitute a rating action.

What's changed?

Resilient leisure spending will be tested. With prices and rates high, consumers may look for bargains, causing travel and leisure spending growth to moderate.

Cruise and Macao gaming are rapidly catching up with overall leisure sector. Full fleets are sailing, and China's reopening will remain an enormous boost to the Macao gaming market.

M&A may restart. Buyers may look past elevated rates or become flexible on how much debt to use to finance transactions. Still, if leveraging mergers and acquisitions (M&A) occurs in a slowing economy, leverage cushions could wilt.

What are the key assumptions for 2024?

Gaming. Macao gaming market will remain strong, but a slowing U.S. economy could weaken Vegas and regional gaming revenue. Inflation continues to take a toll on costs in EMEA gaming.

Lodging. U.S. hotel sector revenue per available room (RevPAR) growth slows to low-single digits, European lodging rates plateau, and timeshare operators spend to pursue new owners.

Cruise. Forward bookings for 2024 are pacing ahead of historical levels and at higher prices, suggesting the industry can absorb higher capacity next year.

What are the key risks around the baseline?

Leveraging transactions could exceed leverage cushions. While a significant number of companies have fully recovered since the pandemic, leveraging M&A or other transactions preceding a slowing economy could put downward pressure on ratings.

High prices and high rates weaken demand more than we assume. This is particularly true for big ticket discretionary items like timeshare and recreational vehicles.

Contacts

Emile Courtney
New York
+1 212 438 7824
emile.courtney@spglobal.com

Dan Daley
New York
+1 212 438 0200
dan.daley@spglobal.com

Christopher Keating
Chicago
+1 312 233 7200
christopher.keating@spglobal.com

Melissa Long
New York
+1 212 438 3886
melissa.long@spglobal.com

Aras Poon
Hong Kong
+852 2532 8069
aras.poon@spglobal.com

Pablo Romero
Mexico City
+52 55 5081 4505
pablo.romero@spglobal.com

Hina Shoeb
London
+44 7775221755
hina.shoeb@spglobal.com

Ethan Wills
Boston
+1 617 530 8002
ethan.wills@spglobal.com

Ratings Trends: Hotels, Gaming, and Leisure

Chart 1

Ratings distribution by region

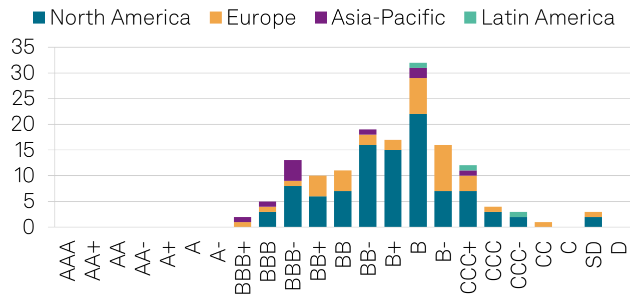


Chart 2

Ratings distribution by subsector

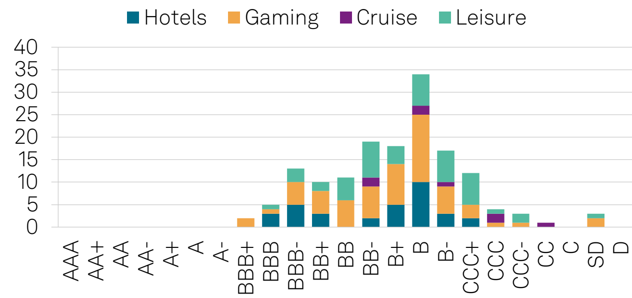


Chart 3

Ratings outlooks

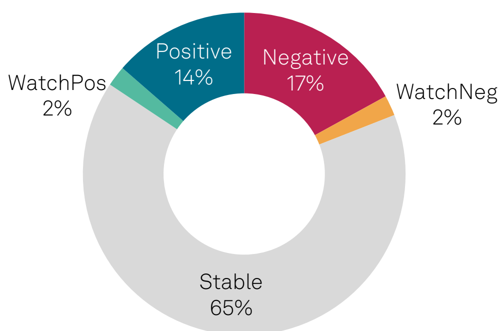


Chart 4

Ratings outlooks by subsector

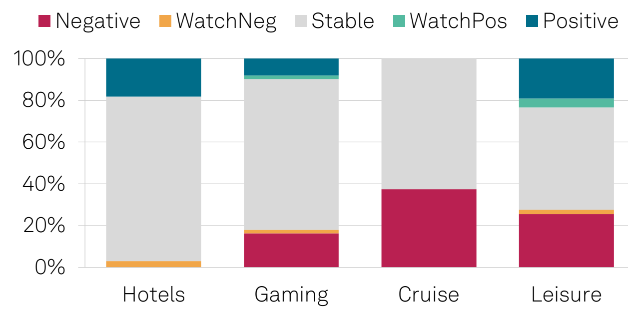


Chart 5

Ratings outlook net bias

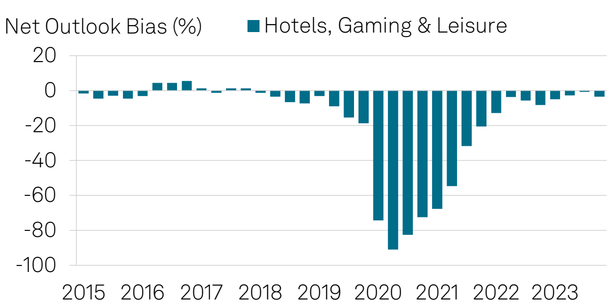
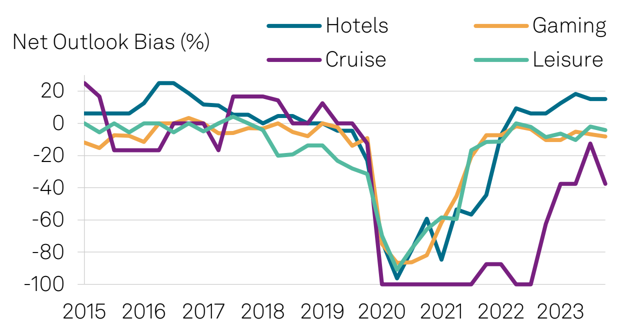


Chart 6

Ratings net outlook bias by subsector



Source: S&P Global Ratings

Industry Outlook: Gaming

Ratings trends and outlook

Rating trends on gaming operators have been mixed. Ratings on U.S. gaming operators were largely stable in 2023 since many were already back to or above pre-pandemic levels. But there was a positive bias for gaming operators exposed to Macao given China's reopening in January and the subsequent and ongoing recovery in Macao gross gaming revenue (GGR). In Europe, while some operators have presented improving credit metrics despite increased regulation and restrictions in markets such as the U.K., legal disputes and regulatory fines have also contributed to negative rating actions. Other operators with market leading positions in key markets have seen improving credit measures and consequently positive rating actions.

Main assumptions about 2024 and beyond

1. Strong momentum in Macao mass gaming market will continue.

Macao mass GGR is recovering faster than we expected. We now estimate mass GGR for 2024 will be 5%-15% higher than in 2019.

2. A slowing economy could weaken regional gaming revenue and spending in Las Vegas.

Pressure on consumer spending from high inflation and increasing unemployment could slow discretionary spending on gaming, leading to modestly lower regional gaming revenue in some markets and a slowdown in spending in Las Vegas. However, a favorable event calendar in Las Vegas in 2024 may be an offset.

3. Inflationary pressures in EMEA gaming may continue to weaken cost base and margin, offset by synergies.

Inflationary pressures in Continental Europe and the U.K. may lead to stubbornly high costs; however, synergies from recently acquired businesses could offset these pressures for some issuers.

Strong recovery in Macao's mass gaming market will support faster deleveraging for rated issuers. Our latest base-case assumptions project Macao mass GGR for 2024 at 5%-15% above 2019 levels, implying 20%-30% growth year on year. The strong momentum in the mass market is mainly due to growth in the premium segment. However, we project base mass will grow during 2024 as more people visit Macao, in line with a recovery in air passenger capacity to Macao and Hong Kong.

The region will also face an easy year-over-year comparison in the first quarter of 2024 because, while coronavirus-related restrictions were relaxed in January 2023, it took some time for the market's recovery to accelerate. Junket (also known as VIP) volume will likely stay near current levels. Operators are unlikely to significantly expand junket VIP operations amid tightened regulations, in our view.

We expect the improvement in EBITDA for rated issuers will accelerate over the next several quarters due to increased Macao visitation and greater availability of hotel rooms in the market. Therefore, we estimate rated issuers' EBITDA will be about 95% of their 2019 levels in 2024, on average. This is except for MGM China, which is outperforming the market largely due to incremental tables awarded to them under a new concession.

A favorable event calendar may somewhat offset the impact of a slowing economy in Las Vegas. Macroeconomic factors that could impede consumers' discretionary spending are rising, which pose risks to U.S. gaming revenue. However, the ongoing recovery in convention and group visitation and a strong event calendar in Las Vegas may be sufficient to offset these headwinds. The performance of destination markets, such as Las Vegas, tends to be more volatile during a downturn than regional gaming markets. However, the continued recovery in group and convention visitation, the return of international travel, and investment in new attractions, including Allegiant Stadium and the MSG Sphere (2023), will likely continue to support a recovery in visitation.

In addition, supply growth in the market has been modest and much lower than in 2008-2010. Hotel room capacity will expand by about 2.4% in 2024 following the December 2023 opening of the Fontainebleau Las Vegas. The market will also benefit from a favorable event calendar over the next year. For example, Formula 1's Las Vegas Grand Prix race, scheduled to occur annually in November through at least 2025, will attract significant visitation and spending during what is normally a slower period for the market.

In addition, Las Vegas will host the Super Bowl at Allegiant Stadium in February 2024. While Super Bowl weekend is typically a good weekend for Las Vegas, and will coincide with Lunar New Year in 2024, we believe hosting the event will draw additional customers and events ahead of the game. These events may help offset the loss of CONEXPO-CON/AGG, a construction trade show held every three years that attracted record attendance of 139,000 in 2023.

Inflationary pressures may continue to weaken cost base and margin, offset by synergies. Demand for gaming operators in EMEA has remained resilient thanks to low unemployment and the countercyclical nature of the industry. However, EBITDA margins have come under pressure in 2023. Despite the recent moderation in inflation, we expect inflationary pressure on the cost base to remain high during 2024. However, we expect large companies to focus on the integration of acquisitions completed over the last 12-18 months and the resulting cost synergies. We believe this will partly offset inflationary cost pressures and expect modestly improving EBITDA margins in 2024.

Key risks or opportunities around the baseline

1. Development projects could delay deleveraging or add incremental leverage.

Global and U.S. operators such as Las Vegas Sands Corp., Wynn Resorts Ltd., MGM Resorts International, Caesars Entertainment Inc., and Genting Bhd. will likely bid for three full-scale casino licenses available in New York. The scale of these projects could add leverage compared to our base-case forecasts.

2. U.S. casino operators may see cash flow benefits from digital gaming, but risks remain.

U.S. casino operators may begin to see positive cash flow contributions from their digital gaming businesses, but additional investments required for new markets or cannibalization remain longer-term risks.

3. Potential for tighter regulation in key geographies for European players.

While we do not expect any major changes in key European geographies other than the implementation of the U.K. White Paper, increasing regulations in other markets, such as Australia, could lead to a drop in revenues.

Large-scale development projects could delay deleveraging or add incremental leverage. We expect global and U.S. operators such as Las Vegas Sands Corp., Wynn Resorts Ltd., MGM Resorts International, Caesars Entertainment Inc., and Genting Bhd. to bid for the three full-scale casino licenses available in New York. The scale of these projects could add leverage compared to our base-case forecasts and slow improvement in the operator's credit measures or eat into substantial leverage cushion for others.

The project sizes range from $2 billion on the low end for expansions or redevelopments of existing properties to more than $5 billion for new developments. However, the leveraging impacts could be 12-18 months away. We believe New York is unlikely to award licenses before the second half of 2024 and don't anticipate winning bidders would initiate any material capital spending before 2025. These developments could take several years to complete given the complexities of building in New York and the likely large scale of the projects.

Many of these operators also have development projects underway in other regions in the U.S. and around the world in Singapore, the United Arab Emirates, and Japan. In Macao, high investment commitments under new concessions are manageable with the ongoing GGR recovery.

U.S. casino operators may see cash flow benefits from digital gaming, but risks remain. U.S. casino operators may begin to see positive cash flow contributions from their digital gaming businesses in 2024. As online sports betting has ramped up, operators' losses have been narrowing and many operators, except for those investing in and rolling out new brands, expect modestly positive contributions next year. Digital gaming--both online and mobile sports betting and iCasino--present opportunities to grow the customer and cash flow base over time.

However, the segment also presents risks as it expands. Newly legalized states are often highly competitive and typically require a lot of investments and marketing spend to build the customer base in that state and scale up. In addition, the expansion of online gaming in the U.S. poses a longer-term cannibalization risk to brick-and-mortar casino cash flow. The extent of the risk depends on the legislation each state enacts to legalize digital gaming.

In states with existing casino operations, if the legislation limits or ties licenses to existing brick-and-mortar casino operators, then cannibalization may pose less of an overall cash flow risk to existing operators because digital gaming would complement their existing land-based offerings. In those markets, if customers substituted a trip to the casino for digital gaming, the existing operator would still capture that revenue. In contrast, if states open up licenses more broadly, existing brick-and-mortar casino operators could see greater substitution and cannibalization of their cash flow.

There is the potential for tighter regulation in key geographies for European players. The implementation of the U.K. White Paper during 2024 is the largest single piece of regulation that could have a material impact on revenue. While large operators have incorporated internal measures to comply with the law, failure to comply after the consultation period could negatively impact the revenue of gaming operators in the U.K. Other geographies are also imposing increasing regulatory measures, such as Australia, where a point of consumption tax increase will likely go into effect in July 2024 in the state of Victoria; there is also a potential for advertising restrictions.

In addition, in the U.S., an increasing number of states present a regulated market for sports betting and iGaming. This is opening new avenues for European players to offset part of the revenue softening on the old continent. We have seen an expansion in the implementation of new regulation in states such as Massachusetts, which presents a real opportunity for European players with a presence in the U.S., such as Entain through BetMGM and Flutter.

Industry Outlook: Hotels And Timeshare

Ratings trends and outlook

With strong leisure, group, and improving business travel trends, most lodging issuers have restored credit ratings to pre-pandemic levels, and a large majority of outlooks are stable. Leveraging M&A has the potential to absorb leverage cushions and negatively impact ratings.

Main assumptions about 2024 and beyond

1. U.S. hotel sector RevPAR growth slows to low-single digits.

U.S. RevPAR growth will likely slow in 2024 from around 5% expected in 2023, as a move toward normalization causes hotel demand to be dependent on GDP and real consumer spending growth, combined with modest hotel rate growth in 2024.

2. EMEA average daily rates will plateau despite expected business travel rebound.

The positive pricing momentum witnessed in 2023 has started to slow down in the last quarter of 2023. European lodging companies may have exhausted their capacity to raise prices as high inflation and higher interest rates are squeezing consumers' disposable income. However, we project a modest uptick in business travel in the last quarter of 2023. A gradual return to a steady pace of business trips could support the growth of occupancy rates at least back to pre-pandemic levels.

3. Latin America's lodging companies could face tougher business conditions.

Continued recovery in economic activity helped reactivate group travel and business events, and savings of travelers from advanced economies resulted in a solid demand for leisure activities in 2023. Our base case for 2024 anticipates a slowdown in economic activity in Latin America (LatAm), largely due to subdued demand from advanced economies.

4. Timeshare companies pursue new owners.

Timeshare sales growth will likely be muted in 2024 as the industry prioritizes new owner growth following years of sales and upgrades sold to existing owners. Slower growth would reflect sales to new owners that are made at a lower price point, with the intention of upgrading those members in subsequent years.

U.S. hotel sector RevPAR growth will likely slow in 2024 from around 5% expected in 2023, as a move toward normalization causes hotel demand to be dependent on GDP and real consumer spending growth. We also expect demand will be confronted by modest average daily rate (ADR) growth in 2024. Owners and operators catering to group and business travelers continue to outpace the broader U.S. market as the segment recovers, and we expect this divergence will continue over the next 12 months as early indications of negotiated rates for events over the next couple of quarters are strong.

Meanwhile, we believe downside risks remain concentrated in leisure travel. While leisure travel has remained more resilient than previous expectations, tightened personal travel budgets could lead consumers to search for deals or pull back on travel spending as they prioritize nondiscretionary purchases, pressuring average daily rates and occupancy in some markets in 2024. S&P Global economists expect consumer spending will become more aligned with real income growth (which has been muted over the past year), as excess savings accumulated in the pandemic dwindle.

Additionally, while we no longer forecast a recession, we expect a modest increase in unemployment over the next two years as businesses face higher cost of capital, which could put additional pressure on consumers. Lastly, higher labor and other operating costs will likely pressure margins for hotel owners in a slow RevPAR growth environment.

Nonetheless, most U.S. lodging issuers have restored credit ratings to pre-pandemic levels, and a large majority of outlooks are stable. The timing of upgrades, if any, will depend heavily on financial policy decisions.

EMEA average daily rates will plateau in 2024 despite an expected rebound in business travel. European lodging operators have benefitted from consumers' willingness to resume leisure travel and were able to raise rates above average inflation in most countries. As a result, in 2023 RevPAR increased 10% for midscale and upper scale operators and about 30% in the budget and economy segment. We saw consumers on tight budgets trade down from midscale and upscale operators to economy and budget operators, causing a shift that could persist in 2024.

Rate increases have already started to decelerate in the last quarter of 2023, and we believe ADRs will plateau in 2024 because consumers' discretionary budgets will continue to be squeezed by high inflation and consumers' disposable income will shrink. However, we expect some respite due to enhanced business travel in 2024.

We believe LatAm's lodging companies will face tougher business conditions in 2024. Continued recovery in economic activity helped reactivate group travel and business events, and savings of travelers from advanced economies resulted in a solid demand for leisure activities in 2023. Our base case for 2024 anticipates a slowdown in economic activity in the region, largely the result of subdued demand from advanced economies. We believe high interest rates will continue to pressure households' disposable income in 2024.

We estimate ADR growth will moderate in the next 12 months, after low-teens percent growth in 2023. Occupancy rates at LatAm's main destinations have mostly recovered from the pandemic, and we expect these levels to remain broadly stable. We assume occupancy remains relatively flat as operators favor holding ADR levels over gains in occupancy. Profitability may be vulnerable because of persistent wage pressures and weaker capacity to pass through costs in 2024.

On the upside, we expect LatAm economies to continue taking advantage of global trends such as supply-chain relocation and energy transition, which would sustain some demand for business travel. We expect 0%-3% growth in RevPAR in Mexico to well above pre-pandemic levels. For all-inclusive resorts across Mexico, the Caribbean, and Central and South America, we expect a strong high season based on operators' publicly disclosed forward booking data. However, net package RevPAR may contract in the second half with a decline in occupancy rates offsetting currently high ADRs.

Timeshare companies pursue new owners. Timeshare sales growth will likely be muted in 2024 as the industry prioritizes new owner growth following years of sales and upgrades sold to existing owners. Slower growth would reflect sales to new owners that are made at a lower price point, with the intention of upgrading those members in subsequent years. This likely leads to lower volume per guest (VPG), which offsets anticipated incremental tour flow in 2024.

We expect industry contract sales will be flat to up in the low-single-digit percentage area in 2024. In addition to driving lower VPG, attracting new buyers will require higher marketing and advertising expense and compress margins in 2024. We expect contract sales for operators with exposure to Maui, primarily Marriott Vacations Worldwide and Hilton Grand Vacations, could be subdued through the first half of 2024 by lower-than-normal occupancy levels at the island's resorts and staffing shortages caused by loss of available housing.

Lastly, while M&A activity is hard to predict, we believe it will be muted following multiple years of acquisition activity (such as Hilton Grand Vacations' acquisitions of Diamond and Bluegreen and Marriott Vacations' Acquisition of Welk).

Key risks or opportunities around the baseline

1. Hotel M&A restarts and leverage increases.

Although there is still a substantial gap in bid-ask spreads for hotel real estate, and the buyer pool reportedly remains smaller than normal, some deals are getting done despite higher rates.

2. Inflationary wage pressure could continue to affect lodging companies' margins in 2024, especially in the U.K.

While we believe eurozone inflation has passed its peak, we expect prices will continue to rise above the European Central Bank's (ECB's) target of 2%, including labor costs, and consumer confidence will remain below pre-pandemic levels in 2024.

3. Lower-than-expected economic activity in the region may result in weaker operating and financial performance for Latin America's lodging companies.

A slowdown in the U.S. or Europe could also depress economic activity in LatAm. In our view, this may lead to a decline in occupancy rates and pressure companies' ability to continue to pass on cost increases through higher ADRs. Additionally, lodging companies that operate under dollarized rates, particularly at beach destinations, may take a hit to profitability if local currencies appreciate against the dollar.

4. Timeshare sales will depend upon health of the consumer.

Sales growth in 2024 will depend on how well consumers hold up under a potentially tougher macroeconomic backdrop as higher interest rates and inflation have diminished savings accumulated over the course of the pandemic.

Hotel M&A restarts and leverage increases. Although there is still a substantial gap in bid-ask spreads for hotel real estate, and the buyer pool reportedly remains smaller than normal, some deals are getting done despite higher rates. Also, the hotel sector remains fragmented, cyclical, and highly competitive, which leads to potential consolidation opportunities. Companies that currently have cushion in leverage measures for ratings may use it up doing deals.

M&A potential is also present in the branded hotel space. Choice Hotel's bid for Wyndham is one example of a potentially highly leveraging transaction, and led us to place ratings on CreditWatch with negative implications.

Inflationary wage pressure could continue to affect lodging companies' margins in 2024, especially in the U.K. The rise in interest rates that the ECB implemented over the course of 2023 helped to ease the generalized price increases, but the same measures by the Bank of England have been less effective. This is linked to the persistent high wage growth that the country experienced during the year. On top of a general tight labor market in the U.K., which is causing a general rise in wages, the hospitality sector suffers from a structural shortage of staff. Margins of lodging companies operating in the U.K. could be more impacted than their European or U.S. peers in 2024.

Lower-than-expected economic activity in the region may result in weaker operating and financial performance for Latin America's lodging companies. Our base case assumes economies in LatAm will slow to below trend in 2024. A higher-than-expected slowdown in the U.S. or Europe could also depress economic activity in the region by reducing trade volumes or foreign direct investment, amid still high interest rates, which will continue to weigh on investment decisions and household income.

In our view, weaker-than-expected economic activity may lead to a decline in occupancy rates and pressure companies' ability to continue to pass on cost increases through higher ADRs. Additionally, lodging companies that operate under dollarized economies, particularly at beach destinations, may take a larger hit to profitability if local currencies appreciate against the dollar. This has been the case of the Mexican market in the last part of 2023.

Conversely, economies in the region could see larger foreign investment and trade related to supply-chain relocation and energy transition, provided countries create a stable political and social environment that fosters economic growth. This could result in higher-than-expected demand on business travel. It could also result in strong demand for leisure activities.

Timeshare sales will depend upon health of the consumer. Sales growth in 2024 will depend on how well consumers hold up under a potentially tougher macroeconomic backdrop as higher interest rates and inflation diminish savings accumulated over the course of the pandemic. S&P Global economists expect unemployment to tick upward over the next two years and consumer spending to converge with real income growth, which has been negative for the past four months. If the economy worsens and consumer sentiment remains at historically low levels for a long time, we believe building new buyer pipelines will become more difficult.

Industry Outlook: Cruise, Recreation, Fitness, Theme Parks, And Play

Ratings trends and outlook

The majority of ratings in this cohort have stable outlooks with significant differences among various segments. Cruise ratings remain multiple notches below pre-pandemic levels, although the rating bias skewed positive in 2023 with several multi-notch upgrades and outlook revisions to positive or stable from negative. Recreational vehicle (RV) retailers have negative outlooks reflecting a harsh decline in retail sales. Fitness operators' outlook bias depends upon the company's membership recovery.

Main assumptions about 2024 and beyond

1. Cruise recovery continues with moderate yield growth and historical levels of occupancy.

We believe forward bookings for 2024 that are pacing ahead of historical levels and at higher prices will support the industry's absorption of incremental capacity. However, we expect yield growth to moderate next year following a strong recovery in 2023.

2. RV retailers feel the strain, while OEMs still have cushion in credit metrics.

Outlooks for rated dealerships are negative because the decline in sales coupled with significant discounting to clear aged inventory has led to a dramatic decline in EBITDA. Original equipment manufacturers (OEMs) have more cushion.

3. Economic pressures could slow the fitness sector's recovery.

We expect fitness center issuers will continue to see a recovery in memberships in 2024 but may be at risk in an economic slowdown.

4. Theme park attendance and per capita spending could falter.

A pullback in broader leisure spending may lead to attendance declines and lower per capita spending at regional theme parks.

5. Toy companies face a stretched consumer.

Weakened consumer demand may lead to toy companies struggling to achieve growth in 2024.

Cruise recovery continues with moderate yield growth and historical levels of occupancy. The large cruise operators have been reporting forward bookings for 2024 that are ahead of historical levels and at higher prices. This suggests the industry is absorbing incremental capacity added in recent periods and planned for 2024. In addition, we expect occupancy for most cruise operators to be around historical levels for a full year in 2024. In 2023, occupancy in the early part of 2023 was still below historical levels.

In our view, the risk of discounting to fill the ships is lower than in previous economic slowdowns because the price gap between a cruise vacation and comparable land-based vacation is wider than usual. However, we expect yield growth will moderate in 2024 following a strong industry recovery in 2023.

Nevertheless, we expect cruise operators will continue to see cash flow and leverage improvement over the next year, albeit at a more moderate pace than 2023, when the industry began recovering. Despite continued cash flow and leverage improvement, the industry's leverage will remain higher than pre-pandemic levels in 2024 given extraordinary borrowings that occurred while the industry was shut down during the pandemic.

RV retailers feel the strain, while OEMs still have cushion. Retail demand for RVs dropped precipitously throughout 2023 with sales of new RVs down approximately 20%-25%. Meanwhile, we expect wholesale shipments from OEMs will decline around 40% for full-year 2023 as they and retailers right-size inventory levels.

Outlooks for rated dealerships are negative as the decline in sales coupled with significant discounting to clear aged inventory has led to a dramatic decline in EBITDA. As a result, leverage could remain above our downgrade thresholds through the first half of 2024.

However, if favorable inventory positioning and various cost mitigation efforts coincide with a stabilization of retail sales, we believe margins could improve and lead to lower S&P Global Ratings-adjusted leverage for our rated dealerships in 2024, potentially in line with current ratings. Our current expectation is for high-single-digit to low-double-digit percent increases in retail unit sales in 2024.

OEMs face the same retail-based challenges as retailers and have suffered a larger decline in shipments than retail unit sales. However, they have been able to moderate increases in leverage because of working capital benefits (primarily from inventory declines).

In contrast, working capital for retailers is not as much of a benefit because new inventory is purchased using floorplan financing, which then must be paid down following the sale of the product such that the increase in operating cash flow from an unwind of inventory is offset by a repayment of the company's floorplan facility. Therefore, OEMs have more cushion in their credit metrics than retailers.

Economic pressures could slow fitness sector recovery. Fitness center issuers have benefited from the recovery in memberships and favorable trends across the industry because there has been an ongoing shift toward consumer spending on experiences and in-person fitness options. A majority of our rated fitness center issuers achieved a full recovery in dues revenue in 2023 because of higher monthly membership fees enacted during the year; however, memberships still remain below pre-pandemic levels in the mid-tier and luxury segments.

A full recovery in memberships could happen by the end of 2024 as fitness center issuers continue to benefit from this shift in consumer preferences. We expect memberships will be flat to up low-single digits as a trend across the sector. However, some issuers may never fully reach pre-pandemic levels because some consumers have changed their daily routines with the prevalence of remote and hybrid working models, which may result in some never returning to a daily in-person gym routine.

In addition, an economic slowdown could be a headwind for membership growth in 2024, particularly in the mid-tier segment where members could trade down to value options to save money. Additionally, luxury gym operators took aggressive price increases in 2023 to offset lower membership bases compared with pre-pandemic levels. However, at some point even more wealthy consumers may begin to feel inflationary fatigue and membership growth trends could begin to slow.

Theme park attendance and per capita spending could falter in 2024. Despite attendance declines at regional theme parks in 2023--largely due to weather-related disruptions--per capita spending remains resilient for now. While we forecast modest revenue growth, macroeconomic risks persist and could slow the pace of growth. Although the Federal Reserve's fight against inflation hasn't materially weakened the regional theme park sector's performance, we believe park attendance and per capita spending could falter next year.

S&P Global economists forecast increasing risk for a macroeconomic downside scenario caused by a slowdown in business activity, increased unemployment, and a decline in consumer spending. Under our downside scenario, we forecast lower growth in 2024, which may lead consumers pulling back on leisure spending, causing industrywide revenue and profitability to decline. In addition, rising labor and other cost inflation hurts theme park profitability.

Despite these risks, we believe theme park performance will be less volatile in a downturn than destination travel because theme parks are easier to access and are a relatively low-cost form of entertainment. We believe greater geographic diversity and scale can help mitigate any potential EBITDA volatility caused by regional economic downturns or weather-related event risk.

Toy companies face a stretched consumer in 2024. Toy companies were met with a challenging holiday season in 2023 and a potentially declining overall North American toy market for the full year. Weakening consumer discretionary spending, persistent inflation, and the post-pandemic shift back to experiences all presented significant headwinds. In addition, a more price-sensitive consumer likely led retailers and toy companies to increase promotions and discounts, pressuring margins.

Coming off another challenging holiday season and facing an economic slowdown, toy companies may face pressure achieving top-line growth in 2024 due to softening consumer spending as a result of declining savings, reinstated student loan obligations, and higher costs due to inflation over the past three years. In 2024, we expect flat to a modest decline in toy company revenue in the low-single-digit percentage area.

Despite our base-case forecast for an economic slowdown, we continue to believe consumers will reliably purchase toys for their children during the important holiday shopping season and special occasions, even though they may do so in moderately lower volumes, as the toy industry is somewhat resilient to economic slowdowns.

Key risks or opportunities around the baseline

1. A more moderate ship delivery schedule will likely support deleveraging.

Many cruise operators have not placed new ship orders since the pandemic. As a result, operators may have no ship deliveries in some years, potentially accelerating deleveraging.

2. Big-ticket RV purchases face higher rates for longer.

We believe downside risk depends on the extent of a slowing macroeconomic environment and the consumer's financial health. While inflation cooled in the second half of 2023, consumer sentiment remains low and higher interest rates could make financing RV sales less palatable, especially for new buyers.

3. Higher build costs could lead to a pullback in growth capital expenditures for fitness operators.

Higher interest rates and build costs could lead to lower growth capital expenditures and fewer new club developments.

4. Demand for park visitation competes with the broader leisure sector.

Theme park operators are undergoing various organic and inorganic growth initiatives to increase visitation and season pass sales.

5. The shift back to experiences may lead to a declining toy industry.

The toy industry saw record volumes during the height of the pandemic in 2020 and 2021 but may face a declining market over the next few years.

A more moderate ship delivery schedule over the next few years will likely allow operators to continue reducing leverage despite incremental ship debt. In addition, many cruise operators have not placed new ship orders since the pandemic. Cruise operators must generally commit to ship orders at least three to five years in advance given the limited number of shipyards globally that are equipped to build cruise ships for the contemporary and luxury segments.

Carnival, for example, has no scheduled ship deliveries beginning in 2026, and Royal has no scheduled deliveries starting in 2027, which could support accelerated deleveraging in those years. NCL has at least one ship scheduled for delivery every year from 2025 to 2028 but has no deliveries in 2024.

We believe cruise operators have prioritized cash flow recovery and leverage improvement as they've emerged from the pandemic ahead of ship orders. However, improving balance sheets, the need to reinvigorate the fleet with new ships and new amenities to stay competitive, and the requirement to periodically replace aging ships may cause operators to resume placing orders for new ships.

How operators balance leverage reduction and ship orders will provide insight into financial policy going forward. We believe the largest operators will likely target one to two ship deliveries a year once they resume ordering ships. This level of spending is probably manageable inside of their cash flow bases, especially for Carnival and Royal.

Big ticket RV purchases face higher rates for longer. We believe downside risk depends on the extent of a slowing macroeconomic environment and consumer demand health. While inflation cooled in the second half of 2023, consumer sentiment remains low and higher interest rates could make financing RV sales less palatable, especially for new buyers. Additionally, S&P Global economists forecast a modest increase in unemployment through 2025, which increases the risk that big-ticker discretionary purchases, such as RVs, will be put on hold.

RV industry shipments have been a leading economic indicator in the past, and shipments have tended to decline ahead of recessionary periods (due to interest rate hikes near the top of a cycle that reduce the availability of consumer financing and retail demand). The current interest rate environment is a burden on retail volumes. We believe dealers have responded to inflation by partly pivoting their inventory strategies to acquire used RV units, and OEMs have been proactive at providing more affordable entry-level products.

Higher build costs could lead to a pullback in growth capital expenditures for fitness operators. Significantly higher build cost and higher interest rates in 2024 could result in fitness center issuers pulling back on growth capital expenditures and new developments, potentially resulting in lower top-line growth. However, there may still be significant opportunities for fitness issuers to take an asset-light approach. Vacant office spaces, malls, and competitor facilities that closed in response to the pandemic present numerous opportunities for new developments and growth with minimal capital expenditures required compared to completely new builds.

Fitness center issuers who adopt an asset-light approach could improve credit metrics and generate more free operating cash flow (FOCF), thereby alleviating the burden of higher financing costs in the current high interest rate environment. For example, Life Time Inc. recently shifted its financial strategy to include more growth from asset-light opportunities, which we expect will help improve its cash flow profile in 2024.

Demand for park visitation competes with the broader leisure sector. The regional theme park sector benefits from high barriers to entry due to significant capital requirements and limited land availability to build new greenfield parks. However, demand for regional theme parks competes with other forms of entertainment for consumer wallet share, including live events, gaming, and leisure travel. Therefore, operators must continuously reinvest in their parks to improve the guest experience and increase visitation.

Since parks have reopened following the pandemic, theme park operators have undergone various price optimization strategies and have added new attractions to their parks. We also expect there to be additional capital outlays for added amenities such as hotels at existing parks. In efforts to preserve margin, they also implemented cost reduction measures, including optimization of staffing levels and scheduling at attractions, and mobile ordering and menu optimization at food and beverage outlets.

Theme park operators have also demonstrated an appetite for M&A opportunities for further growth. For instance, in November 2023, Six Flags Entertainment Corp. and Cedar Fair L.P. announced a merger that will roughly double the combined company's EBITDA base, improve geographic diversity, and provide expanded park access for season pass holders.

The shift back to experiences may lead to a declining toy industry over the next few years. During the pandemic, toy companies saw record top-line growth, with U.S. toy industry retail sales growth of 16% in 2020 and 13% in 2021, according to Circana (an American market research company formerly known as NPD). Fueled by the pandemic, lockdowns, and school closures, consumers purchased more toys.

However, beginning in 2022, across the leisure sector we have seen a shift in consumers preferences for experiences over goods. In 2022, retailers ordered atypically high volumes of toys in the first half of the year out of fear of persistent supply chain disruptions and following empty shelves during the 2021 holiday season (brought on by the high level of pandemic-related toy purchases). However, growing macroeconomic pressures led to less demand than anticipated and toy companies saw a less than stellar holiday season in 2022; they faced another challenging environment in 2023 as retailers reverted to a typical order flow.

Toy companies may face a declining toy market over the next few years as the industry potentially modestly contracts from inflated pandemic levels. In 2024, our macroeconomic forecast has consumer spending slowing to about 1.8% because excess savings has dwindled. Consumers may continue to prefer experiences over goods--including travel, leisure, and dining out over the next year or two--and ultimately buy fewer toys.

Related Research

- Research Update: Carnival Corp. Upgraded To 'BB-' From 'B' On Favorable Bookings And Pricing, Expected Deleveraging; Outlook Stable, Dec. 22, 2023
- Research Update: Hasbro Inc. Outlook Revised To Negative Due To Weakened Credit Metrics, Dec. 13, 2023
- Peer Comparison: European Budget Hotel Chains Travelodge And B&B Hotels: Identical Ratings, Divergent Business Models, Dec. 12, 2023
- Bulletin: Choice Hotels International Inc. Ratings Remain On CreditWatch Negative On Announced Exchange Offer, Dec. 12, 2023
- Research Update: CWGS Enterprises LLC Outlook Revised To Negative Due To Leverage Spike And Reliance On Late-2024 Retail Recovery, Dec. 7, 2023
- Research Update: RV Retailer Intermediate Holdings Outlook Revised To Negative Due To Leverage Spike And Reliance On Late 2024 Recovery, Dec. 7, 2023
- Research Update: Caesars Entertainment Inc. Outlook Revised To Positive On Strong Operating Performance; 'B+' Rating Affirmed, Nov. 21, 2023
- Research Update: Melco Resorts And Studio City Outlooks Revised To Positive On Strong Macao Mass Gaming Market Recovery; Ratings Affirmed, Nov. 16, 2023
- Research Update: Wynn Resorts Ltd. And Wynn Macau Ltd. Upgraded To 'BB-' On Macao Recovery And Strong Las Vegas Results, Outlook Stable, Nov. 15, 2023
- Credit FAQ: What We've Learned About Cybersecurity Risk Following Recent Attacks In The U.S. Gaming Sector, Nov. 8, 2023
- Research Update: Hilton Grand Vacations Inc. Ratings Placed On CreditWatch Negative On Plan To Acquire Bluegreen, Nov. 6, 2023
- Research Update: Cedar Fair L.P. Ratings Placed On CreditWatch Positive On Proposed Merger With Six Flags Entertainment Corp., Nov. 3, 2023
- Research Update: Six Flags Entertainment Corp. Ratings Placed On CreditWatch Positive On Proposed Merger With Cedar Fair L.P., Nov. 3, 2023

Industry Forecasts: Hotels, Gaming, and Leisure

Chart 7

Revenue growth (local currency)

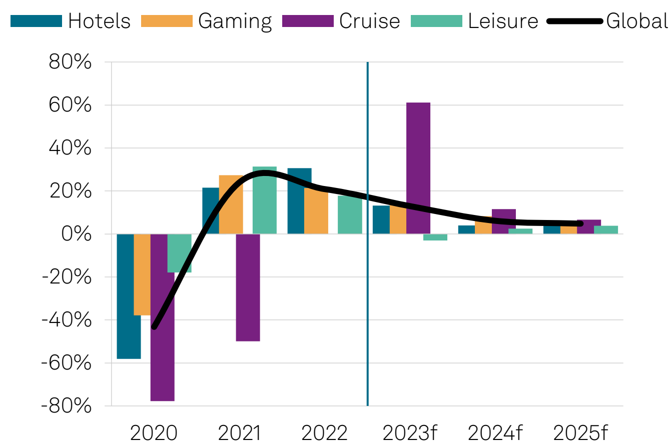


Chart 8

EBITDA margin (adjusted)

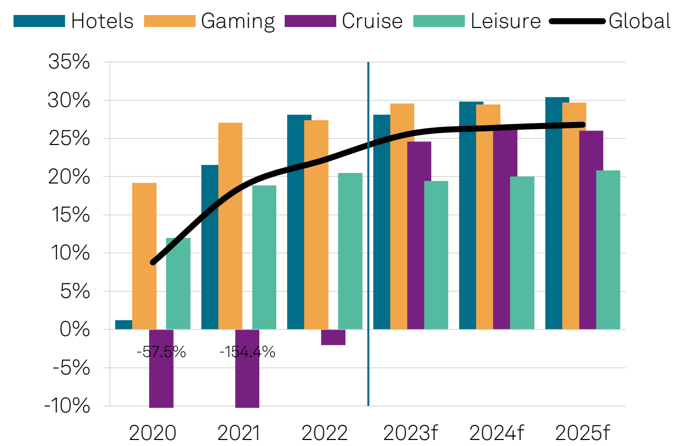


Chart 9

Debt / EBITDA (median, adjusted)

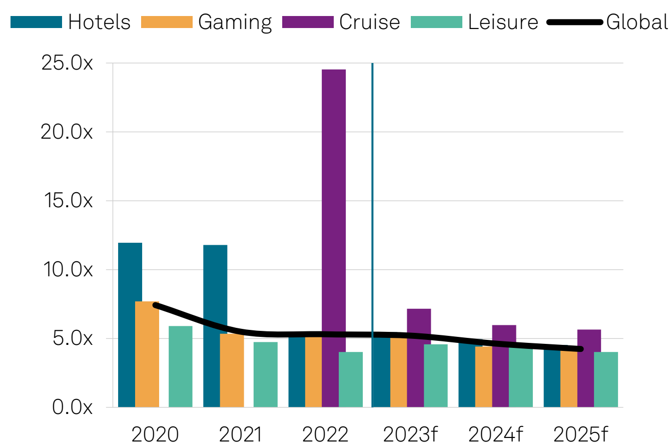
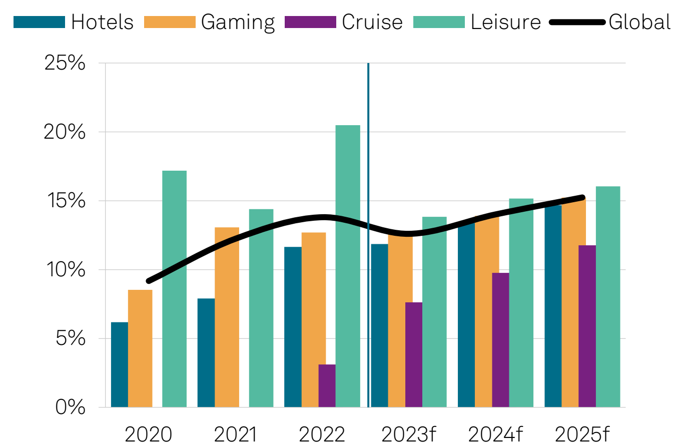


Chart 10

FFO / Debt (median, adjusted)



Source: S&P Global Ratings.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Cash, Debt, And Returns: Sector

Chart 11

Cash flow and primary uses

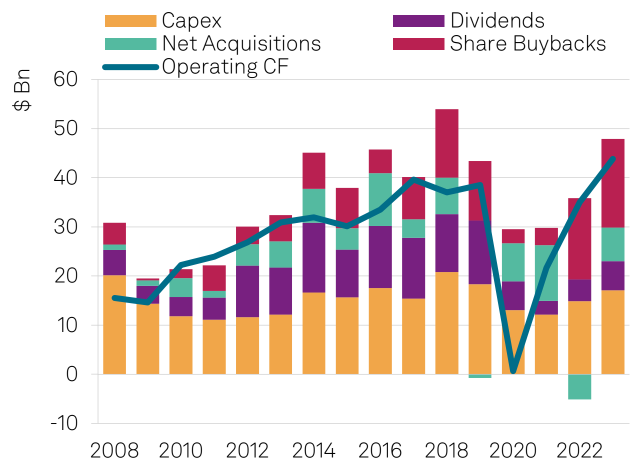


Chart 12

Return on capital employed

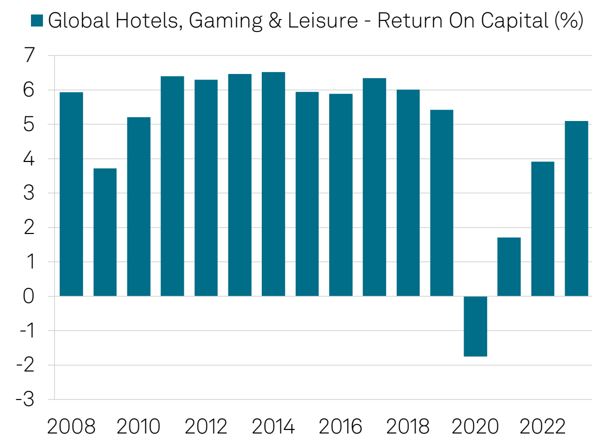


Chart 13

Fixed- versus variable-rate exposure

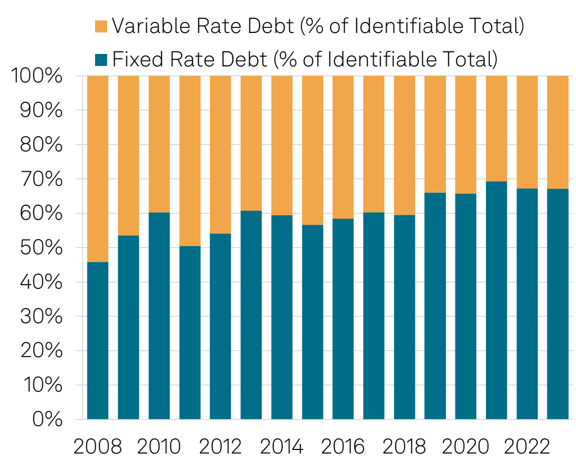


Chart 14

Long-term debt term structure

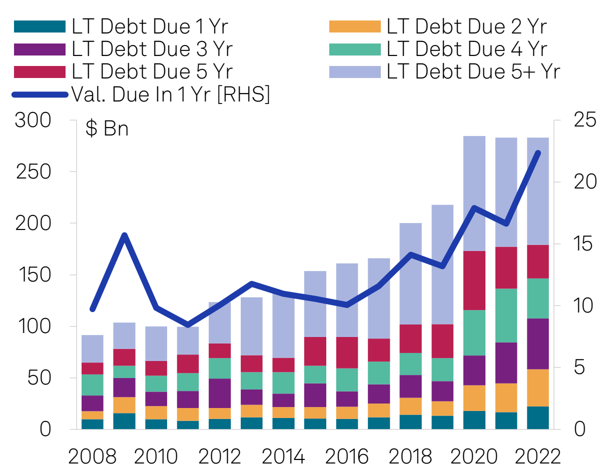


Chart 15

Cash and equivalents / Total assets

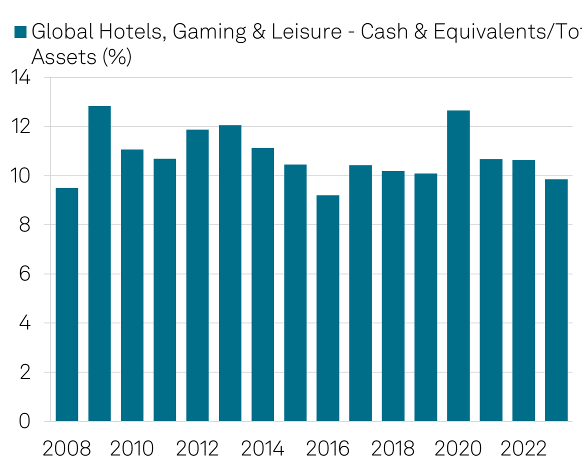
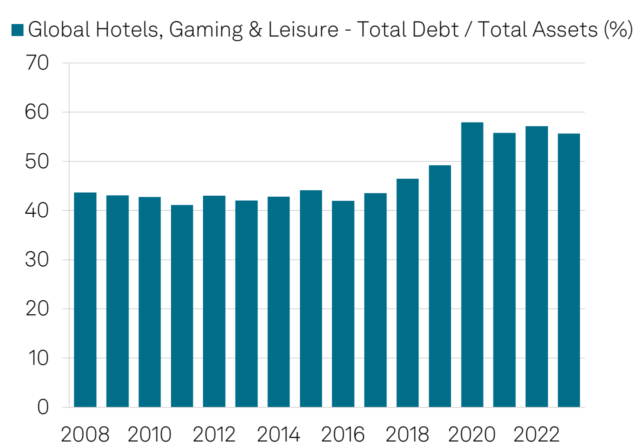


Chart 16

Total debt / Total assets



Source: S&P Capital IQ, S&P Global Ratings calculations. Most recent (2023) figures use the last 12 months' data.