Hotels, Gaming, And Leisure

Travel and leisure spending faces policy uncertainty

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This report does not constitute a rating action.

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What's changed?

Significant policy uncertainty. It's uncertain if still-fairly resilient discretionary travel and leisure spending will hold amid possible tariffs, labor constraints, and slower pace of further Fed easing.

Big-ticket discretionary leisure products have underperformed. Revenue and EBITDA for boats, RVs, powersports, and motorcycles are far below our base case because of high prices and interest rates. but retail sales have fallen so far they have likely reached a trough for most products.

The low-income gaming consumer deflates. Spending is being reined in at casinos in some markets where low-income consumers reduce entertainment budgets.

What are the key assumptions for 2025?

Gaming. Macao's mass gaming market will remain strong, regional gaming revenue and spending in Las Vegas face a strained consumer, and regulation in Europe consolidates market shares.

Lodging. U.S. RevPAR improves modestly due to higher business and group travel, European hotel owners face higher costs, and timeshare operators continue to invest in new owners.

Cruise. Forward bookings for 2025 that are on pace with or ahead of historical levels and at higher prices will support the industry's absorption of modest incremental capacity.

What are the key risks around the baseline?

M&A deals and shareholders distributions that are not currently in our base case could have negative impacts on ratings.

Inflation is reignited by tariff and immigration policies that raise the cost of imports and reduce labor supply, increasing input costs and wages and hurting discretionary consumption.

Ratings Trends: Hotels, Gaming, and Leisure

Chart 1

Ratings distribution by region

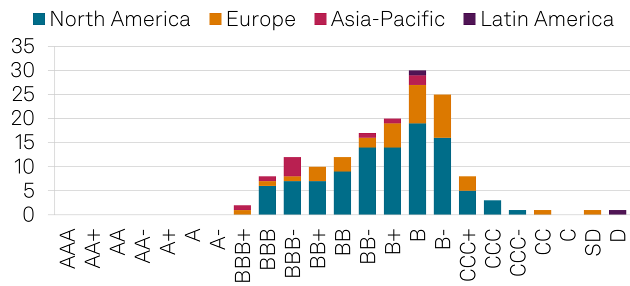


Chart 2

Ratings distribution by subsector

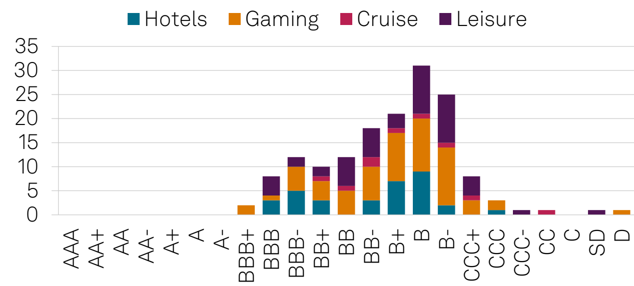


Chart 3

Ratings outlooks by region

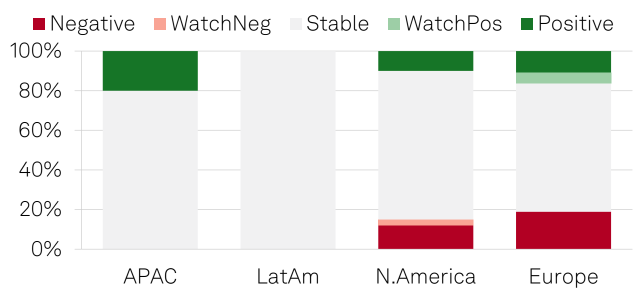


Chart 4

Ratings outlooks by subsector

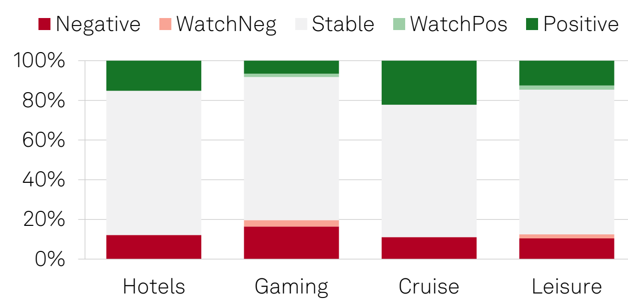


Chart 5

Ratings outlook net bias by region

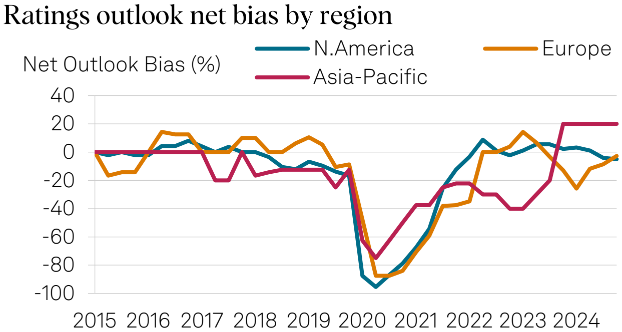


Chart 6

Ratings net outlook bias by subsector

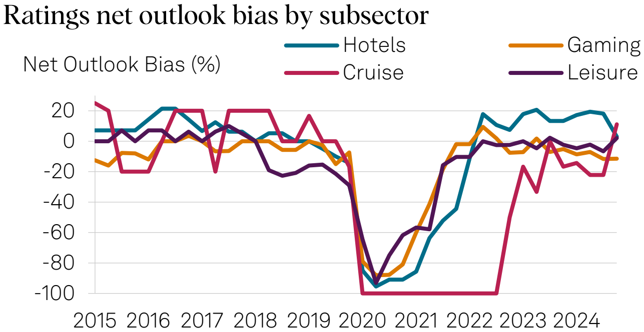


Chart 7

Ratings outlooks

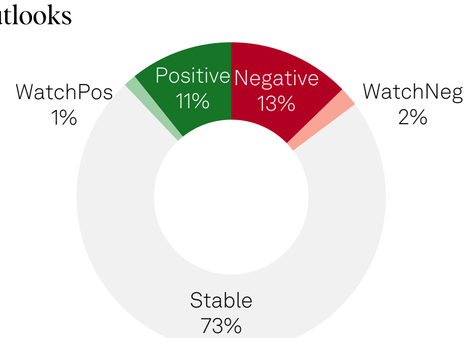
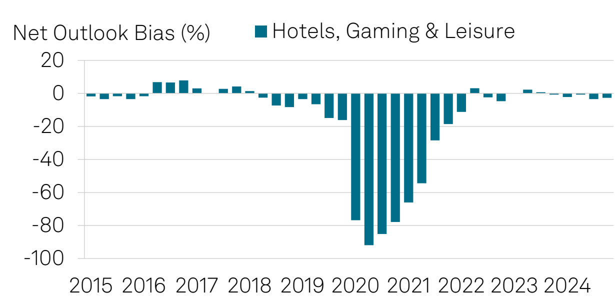


Chart 8

Ratings outlook net bias



Source: S&P Global Ratings

Industry Outlook: Gaming

Ratings trends and outlook

Recent downgrades are largely concentrated among small scale, highly leveraged gaming issuers facing intensifying competition for a strained consumer. While most rating outlooks are currently stable, the gaming sector has the largest number of credits within the leisure sector. Gaming also has the largest negative outlook bias, mostly because of M&A or development spending straining credit measures, or regulatory pressure and a weak consumer.

Main assumptions about 2025 and beyond

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

We project Macao's total gross gaming revenue (GGR) will increase 5% to 6% in 2025 compared with 2024. We base our growth forecast on continued strength in mass market GGR.

2. Regional gaming revenue and spending in Las Vegas may be pressured by a slowing economy.

Slower consumer spending combined with rising unemployment may hurt discretionary spending on gaming, leading to modestly lower regional gaming revenue in some markets and less spending in Las Vegas. An unfavorable event calendar comparison in Las Vegas could exacerbate the effects of a slowing economy.

3. European operators increase positions in regulated markets, reducing negative repercussions.

European operators benefit from online sports betting and regulatory changes for online casinos that increase barriers to entry. Consolidation may further improve large operators' market positions, but M&A leverage may hinder material improvements in credit metrics.

Strength in Macao's mass gaming market will support further EBITDA growth for rated issuers. Our latest base-case assumptions project Macao's 2025 total GGR will grow 5%-6% year over year. We based this mainly on continued strong momentum in the mass market segment, which we expect to be 15%-20% above 2019. We believe mass market GGR will grow in 2025 as visitation to Macao returns to pre-pandemic levels, aided by solid demand from premium mass customers and expanded hotel capacity. Supporting this is visitation from Mainland China, which surpassed 2019 during Golden Week 2024. We also expect to see further recovery in base mass visitation and GGR, particularly from casual players. However, total GGR will remain about 15%-20% below pre-pandemic levels, due to the tightened regulations on junket (VIP) operators. As a result, VIP volume will likely stay near current levels, as operators are unlikely to significantly expand junket VIP operations amid tighter regulations. EBITDA will likely expand as visitation recovers and some gaming operators, such as Studio City, Sands, and Galaxy, continue ramping up new capacity and new investments.

A slowing economy could pressure regional gaming revenue and spending in Las Vegas. We expect 2025 to be another year of muted regional gaming revenue growth as consumer spending weakens and unemployment rises. Some markets and properties may benefit from hosting events like the Super Bowl or new investments, but others may struggle in a softening economy, especially those that may cater to more value-oriented customers, or where competition is increasing. In Las Vegas, an unfavorable event calendar in 2025 compared with 2024 could magnify the impacts of a slowing economy. Some cracks are already beginning to show as the market faced the anniversary of the inaugural Formula 1 Grand Prix race in the fourth quarter. The first year of a new race is typically the strongest. We expect the unfavorable year-over-year comparison to bleed into the first quarter as Las Vegas hosted the Super Bowl in 2024, which drove strong room rates and revenue. A contraction in room inventory in the market as the closures of several properties offset new rooms at Fontainebleau may provide a modest buffer against falling room rates in a weaker economy. Nevertheless, most gaming operators generate most of their cash flows from a small percentage of customers in their databases. As long as these customers remain relatively healthy and operators can maintain cost controls and marketing discipline, most have some cushion to navigate softer operating performance next year. While brick and mortar gaming revenue might soften next year, overall total commercial gaming revenue in the U.S. could rise as sports betting and iGaming growth will likely remain strong as existing and new markets continue ramping up.

European operators' increased positions in regulated markets reduces negative repercussions. Demand for gaming in EMEA has remained resilient thanks to some recovery in consumer sentiment and real wage growth. Despite recently eased inflation, margin improvements are expected to be minor in light of continued cost increases. We believe increasing regulation and related costs raise barriers, benefiting established operators. This is especially the case for online sports betting and casino offerings. We expect operators with previous retail operations in newly regulated online markets to benefit from their brand awareness. At the same time, restrictive, regulatory-driven marketing initiatives, player protection, affordability checks, and potential tax levies could make offerings less attractive and pressure margins.

European issuers, such as Entain and Flutter, are highly engaged in the regulated U.S. markets for online sports betting and gaming. In 2024, operators consolidated their market share and we expect this trend to continue in 2025 as they prioritize growth over profitability. As a result, we see material improvements in earnings and cash generation after 2025. Some of the European operators with a smaller presence, such as Tipico and Evoke, are gradually exiting the U.S. market, which should help preserve cash flows and credit metrics, since the U.S. expansions require meaningful capital investments.

Key risks or opportunities around the baseline

1. Economic headwinds and potentially higher operating expenses could hurt cash flow.

Despite our forecast for GGR growth in Macao, a weakening economy and potentially higher operating expenses targeting premium mass players could impair cash flow and leverage improvement.

2. Development projects could add incremental leverage over time.

Global and U.S. gaming operators could bid for three full-scale casino licenses in New York. The scale of these projects could add leverage compared with our base-case forecasts. We don't currently incorporate New York developments into our forecasted credit measures because of significant uncertainty over when New York will award licenses and which bids will be successful.

3. Faster shift to a regulated European market could accelerate growth, however regulation and related costs could impair product attractiveness and profitability.

In Europe, a faster-paced regulation of the market should benefit rated operators as it enables underlying growth and reduces regulatory risks.

Economic headwinds and potentially higher operating expenses could impair Macao cash flow. Macao faces greater risks compared with other gaming markets, given its very high dependence on mainland visitors. Softer gaming revenues may materialize in 2025 if Chinese visitors broadly pull back leisure spending amid persistently soft macro conditions. In our view, base mass players are more sensitive to changing economic conditions – particularly weak employment or earning prospects. Premium mass players with higher net worth are generally less sensitive to economic volatility. This segment has been resilient despite declining asset prices over the past two years. However, this could change if asset prices decline further. Competition for mass GGR could also propel higher marketing spend and operating expenses for Macao casinos. With the VIP segment stagnant, all Macao operators are targeting premium mass players, which could lead to higher promotional spend or higher costs related to enhancing the customer experience. This could lead to slower EBITDA growth and slower deleveraging, especially for those operators ramping up new properties. That said, the risk of gaming revenue volatility (due to economic headwinds) and potentially higher operating expenses is less of a credit concern because most of our rated issuers have largely restored their balance sheets and have sufficient cushion in credit measures to absorb this volatility.

Higher capital expenditures could delay deleveraging or add incremental leverage. Global and U.S. operators such as Las Vegas Sands (LVS), Wynn Resorts Ltd., MGM Resorts International, Genting Bhd., and Caesars Entertainment Inc. will likely bid for up to three full-scale casino licenses available in New York. The scale of these projects could add leverage compared with our base-case forecasts, slowing improvement in the operator's credit measures or eating into substantial leverage cushion for others. The project sizes range from $2 billion on the low end for expansions or redevelopments to more than $6 billion for new developments, and we believe these original development cost estimates could escalate as time passes. We believe New York could award licenses in late 2025 but don’t anticipate winning bidders would initiate any material capital spending before 2026 or 2027. These developments could take several years to complete given the complexities of building in New York and the likely large scale of these projects. Many of these operators also have development projects underway in other regions of the U.S., and around the world in Singapore, the United Arab Emirates, and Japan. Thailand is also in discussions to open its gaming market as soon as 2025, which could add future development risks for LVS, MGM, and Wynn. Despite these development risks, many of these operators have cushion to absorb higher development spending but these risks limit rating upside at this time.

A faster shift to a regulated European market could foster growth but burden profitability. In Europe, a faster-paced introduction of regulation should benefit rated operators as it will enable the opening of new gaming markets and will reduce regulatory uncertainty. Specifically, this would apply to online casino offerings that have yet to be legalized in some European markets, such as France or Finland. It is also possible that increased regulation could impair the attractiveness of some product offerings. We also believe the sector is increasingly scrutinized by the public, which could lead to additional cost burdens, such as taxes or license fees.

Industry Outlook: Hotels And Timeshare

Ratings trends and outlook

Most of our rating outlooks on lodging companies are stable thanks to solid credit metrics stemming from durable leisure demand and improving group and business travel trends. Easing inflation and declining interest rates could spark M&A deals and shareholder distributions not currently in our base case, which could in turn have a negative impact on ratings.

Main assumptions about 2025 and beyond

1. U.S. hotel revenue per available room (RevPAR) growth improves modestly between 1% and 3%, but largely in line with consumer spending.

U.S. lodging performance will continue to reflect weakness among lower-income travelers, a strong dollar that incentivizes outbound travel, partly supported by low supply growth in the domestic market.

2. European RevPAR grows modestly, although higher operating costs could threaten profitability.

RevPAR should increase modestly in the low-single digits in 2025 given already high ADRs and flat occupancy rates. The profitability of asset-heavy operators may be challenged by high labor and lease costs, while asset-light and diversified groups should prove more resilient.

3. Latin America's lodging companies' operating performance remains steady in 2025.

Business travel and leisure activities were stable in 2024 amid disinflation in the region and benefited by a strong dollar. Our base case for 2025 assumes economic activity grows 2%, ADR grows 3% to 4%, and occupancy is flat, which should help companies maintain steady operating performance.

4. Timeshare operators will continue to focus on investing in new owners.

New owner investment will likely translate into higher tour flow and lower volume per guest (VPG), resulting in low-single digit contract sale growth in 2025.

We expect U.S. hotel RevPAR will grow 1%-3% in 2025. Upscale properties in key lodging markets will likely continue to outpace the overall lodging market through 2025 as group demand and business transient travel continue providing tailwinds, benefitting higher end chain scales. We expect occupancy and ADRs will increase 0.5%-1.5% over the next year, with most of the gains coming from upscale properties. While we do not believe RevPAR will continue to decline at midscale and economy hotels, we believe they will continue to lag the overall market as lower end travelers maintain tighter travel budgets. RevPAR year to date through November was strongest amid upper upscale (+2.7%), luxury (+2.0) and upscale (+1.9%) hotels. At the same time, growth in 2024 was concentrated among top markets that had not fully recovered as businesses bring workers back to offices and travel budgets are increased. RevPAR year to date in the top 25 U.S. markets was up 2.4% compared with the overall U.S. market up 1.6%. Houston (+15.4%), New York (+8.6%), Chicago (+7.6%), New Orleans (+7.5%), Boston (+6.7%), and Seattle (+6.8%), were the leading cities. Meanwhile, lower chain scales have continued to lag the overall market despite signs of resilience in the past few months with economy segment RevPAR down 2.3% through November 2024. Also propelling growth in the U.S. lodging market is multiple years of historically low supply, driven down by lower development activity overall amid a high interest rate environment. While development has already accelerated in certain luxury and upper upscale markets, it could pick up more broadly if the Federal Reserve continues easing its monetary policy. However, it may take a couple of years for incoming supply to affect overall occupancy rates and ADR.

European RevPAR should grow modestly, but higher costs could threaten profitability. We believe real GDP growth in Europe, about 1%-2% in 2025, should support low-single-digit growth in RevPAR for European lodging operators, given already high ADRs achieved in the past two years. However, we expect occupancy rates to remain flat, as a result of moderating leisure demand, somewhat offset by a recovery in business travel. Given the fragmentation of the European lodging market, we expect owners and operators to continue their development activity in 2025, either by allocating more resources to development expenditures or through M&A deals.

In addition to stagnant macroeconomic trends, we believe downside risks remain concentrated around higher operating costs, potentially curbing profitability especially on asset-heavy operators, such as AccorInvest Group SA or B&B Hotels. Pressure on households' disposable income is forcing operators to increase marketing expenses to sustain demand, while wages and lease costs rise in line or above national inflation levels and may squeeze EBITDA margins of lodging operators further.

On the upside, we expect European countries to remain a strong destination for leisure travel, while trade fairs and professional events should support occupancy growth as business travel continues to recover. We believe the most diversified asset-light operators, such as Accor SA and Intercontinental Hotels Group PLC, are well positioned to profit from these trends and offset negative margin pressures thanks to a nimble operating model.

We expect operating performance at LatAm's lodging companies will remain steady in 2025. Business travel and leisure activities were stable in 2024 amid disinflation in the region and a strong dollar, resulting in a solid demand from international travelers. Our base case for 2025 assumes 2.0% growth in economic activity in the region. As a result, we estimate ADR will grow 3% to 4%, after mid- to high-single-digit growth in 2024. We assume occupancy remains relatively flat because operators may favor holding ADR levels over gains in occupancy. We expect profitability to remain stable as disinflation continues, mitigated by persistent wage pressures. This should help the companies maintain healthy revenue and EBITDA growth in 2025. For all-inclusive resorts across Mexico, the Caribbean, and Central (excluding Jamaica) and South America, we expect a strong high season based on operators' publicly disclosed forward booking data. We expect Jamaica's all-inclusive resorts will have a tough year-over-year comparison in the high (winter) season due to the negative impact of the U.S. State Department's travel advisory in the first quarter of 2024. In the second half of the year, cost fatigue could pressure currently high ADRs and pressure net package RevPAR as operators attempt to stimulate demand by managing ADRs.

We expect sales growth among timeshare operators will remain muted, as the companies continue to pursue new owners. We forecast low- to mid-single-digit tour growth as leisure travel remains stable and companies with exposure to Maui benefit from continued visitation recovery to the island. We expect volume per guest (VPG) among our three rated issuers will begin to stabilize as the companies have materially shifted their sales mix over the past two years. Additionally, we expect default rates and loan loss provisioning (as a percentage of outstanding receivables) to remain stable, albeit moderately higher than historical trends. Default rates among some issuers have modestly increased either because the company has shifted sales toward lower income demographics, such is the case for Hilton Grand Vacations, or broader economic pressures and sustained increases in maintenance fees (as higher operating costs have been driven up by inflation and are passed on to owners). Lastly, while M&A activity has slowed since Hilton Grand Vacations' purchase of Bluegreen Vacations in January 2024, we believe operators will continue looking for portfolio acquisitions that strengthen the profile of their existing resort base.

Key risks or opportunities around the baseline

1. Easing U.S. monetary policy could spur higher M&A activity and leverage while policy proposals could result in cost inflation across chain scales.

The Federal Reserve's path to reducing rates remains uncertain, but deal activity could increase gradually if it eases rates further. Meanwhile, reduced immigration and increased tariffs could result in lower margins among domestic hotels.

2. In Europe, higher-than-anticipated cost inflation, combined with large acquisitions and shareholder remuneration, could pressure credit metrics.

Wage pressure remains a challenge for European lodging operators, given the structural shortage of staff, particularly affecting the U.K. Acquisitions and expansionary investments have restarted, alongside shareholder remuneration, and these outflows need to be carefully balanced by a strong financial policy to avoid weakening credit metrics.

3. A slowdown in economic activity across major economies could result in lower travel activity in LatAm.

We believe downside risks to our forecasted economic growth in LatAm are high, amid trade-related uncertainties across major economies, which could slow down economic and travel activity, given the discretionary nature of the sector.

4. Higher default rates and increased provisioning represent the greatest near-term risk to timeshare companies.

Incremental inflationary pressure on homeowners' association fees could result in marginally higher defaults.

Uncertain policies from the incoming administration could affect the U.S. hotel sector. The sector remains fragmented, cyclical, and highly competitive, which leads to potential consolidation opportunities. And while deal activity has been quiet for the past few years, notwithstanding Choice Hotel's bid for Wyndham in 2023, dampened by macroeconomic uncertainty and interest rates, many of our rated lodging issuers currently have cushion in leverage measures for ratings and we expect they may use it to pursue M&A deals as interest rates come down. Additionally, specific policy proposals from the incoming presidential administration could lead to higher operating costs for hotel owners. What is eventually enacted remains highly uncertain, but S&P Global economists recently estimated a universal tariff could add as much as 1.8 percentage points to inflation, which we expect would result in higher operating costs at hotels. Additionally, policy proposals around immigration could affect the landscape among hourly wage earners, among which hotels draw from for a portion of their labor. Net migration outflows could constrain the labor pool available to hotels, forcing them to increase wages to attract workers.

In Europe, cost inflation and large acquisitions and shareholder remuneration could pressure credit metrics. Wage inflation remains elevated with significant headwinds in countries such as the U.K., where higher minimum wages and increases in national insurance could intensify pressure on margins. We also believe the asset-heavy operators, such as Motel One and Travelodge, are more exposed to rising lease costs due to inflation indexation clauses in their lease agreements, despite renegotiation opportunities. Moreover, the European hotel sector is very fragmented, and we are seeing many hotel operators jumping on consolidation opportunities, taking advantage of easing interest rates to conclude sizeable investments or hotel deals. While expansionary investment could help operators to benefit from stronger competitive positions, we see a risk that elevated expansionary investment could weigh on credit metrics and ratings, if not balanced with restarting shareholders' remuneration.

Our base case assumes LatAm will grow 2.0% in 2025. However, downside risks to our forecast are high, amid trade-related uncertainties across major economies. A higher-than-expected increase in trade protectionism could hit economic growth in the region by reducing trade volumes or foreign direct investment. This may lead to a decline in occupancy rates as consumers prioritize nondiscretionary spending under a deteriorating macroeconomic environment. Lower occupancy may also pressure companies' ability to continue passing on cost increases through higher ADRs.

Higher default rates and increased provisioning represent the greatest near-term risk to timeshare companies. We don't believe elevated interest rates have had material impacts on overall vacation ownership sales over the past several years, primarily because interest rates on timeshare loans are untethered from the federal reserve base rate. However, inflation – and subsequent maintenance fee increases – have driven up defaults and resulted in higher provisions for loan losses. We have modeled in higher provisioning into our base case, but we believe defaults could remain elevated or increase further if inflation picks up due to proposed tariffs and higher operating costs are passed on to consumers.

Industry Outlook: Cruise, Recreation, Fitness, And Play

Ratings trends and outlook

There have been recent upgrades among cruise and theme park companies in the U.S. The upside bias remains for cruise companies for which we anticipate credit measures will benefit from increased bookings and higher yields in 2025. Rated RV dealers have been downgraded as retail sales volumes plummeted, but we believe the RV space reached a trough in 2024. Ratings on RV original equipment manufacturers (OEMs) held up better because of comparably more operating flexibility and cushion in credit measures. Rating outlooks in this broad and diversified collection of companies, which also include fitness operators and toy companies, are mostly stable because of forecasted credit measures in alignment with ratings.

Main assumptions about 2025 and beyond

1. Current forward cruise bookings for 2025 should support moderate yield growth next year.

We believe forward bookings are on pace with or ahead of historical levels and at higher prices, which will support the industry's absorption of modest incremental capacity. However, we expect yield growth to moderate in 2025 following two strong years of yield growth.

2. Consumers may remain wary of financing big-ticket discretionary leisure purchases.

Modest interest rate declines will likely not provide a windfall of consumer demand for largely financed purchases.

3. We expect good demand in the premium and budget fitness segments to continue in 2025.

We believe luxury and budget fitness operators will continue benefitting from good demand amid a growing focus on health and wellness among consumers.

4. Growth in early season pass sales and group visitation support higher U.S. theme park attendance in 2025.

Higher season pass sales and group attendance should support attendance growth, though international visitation will likely take longer to recover.

5. The toy industry is flat to down modestly in 2025.

Cost fatigue pushes consumers to seek value in toy purchases in 2025.

Moderate yield and capacity growth will support cruise revenue in 2025. The cruise industry experienced another year of strong yield growth and onboard spending in 2024 and occupancy largely returned to pre-pandemic levels. With the industry’s occupancy recovery largely complete, we expect moderate yield and capacity growth to drive revenue growth in 2025. However, after several years of very strong yield growth, we assume it will be more moderate than in the past two years. We believe the recent yield growth is unsustainable and will likely converge closer to consumer spending and more in line with historical yield growth. As a result, we are forecasting net yields for large cruise operators will grow 2%-4%. The large cruise operators have been reporting forward bookings for 2025 in line with or ahead of historical levels and at higher prices. This suggests the industry is absorbing capacity added in recent periods and can absorb modest capacity growth expected in 2025. Cruise Lines International Association (CLIA), the cruise industry trade association, estimates global cruise capacity measured by the number of cruise ship berths will increase about 3% in 2025 compared with 2024. We expect cruise operators will continue to see cash flow and leverage improvement over the next year, but the pace of leverage improvement will be determined by a combination of a company's capacity growth, yield growth, and their ship delivery schedule.

Demand for big ticket discretionary items could remain soft through at least 2025. While S&P Global macroeconomists expect inflation to ease and for interest rates to gradually recede in 2025 from the high levels of 2024, we do not expect a significant increase in retail demand for powersports as consumer spending could remain stagnant for sales of high-ticket discretionary leisure products (such as RVs, boats, motorcycles, and ATVs).

Big-ticket sales could take multiple years to meaningfully recover and we believe they will remain below the records set during the buying spree immediately following the pandemic lockdowns in 2020 and 2021. However, we believe these industries reached a trough in late 2024 and anticipate their retail sales and unit shipments will begin to stabilize in 2025. Weakened consumers may continue to delay spending on big-ticket leisure items and focus on more family-oriented options at more competitive price points, which could continue to increase competitive pressures on leisure manufacturers.

Solid demand to continue driving overall growth in the luxury and budget fitness segments. Fitness center issuers' revenue has benefited from a recovery in memberships due to an ongoing spending shift toward experiences and in-person fitness options. We believe both luxury and budget fitness operators will continue to benefit from good demand amid a growing focus on health and wellness among consumers. The premium segment will likely remain strong in 2025 as luxury offerings resonate with consumers' values. Currently, there are no signs of a slowdown in the high-end fitness space. While total memberships still lag pre-pandemic levels, increases in both membership pricing and overall ancillary spending—particularly for personal training services—have led to a full top-line recovery for most high-end fitness operators. This supports further revenue and EBITDA upside for these issuers in 2025. In response to members' growing desire to holistically integrate health and wellness into the fitness experience, high-end operators continue to expand ancillary offerings. Relative resiliency within the luxury consumer space is generally consistent across industries, and we believe high-quality gyms and lifestyle brands still resonate with core members. Throughout 2023, luxury gym operators successfully took aggressive price increases to offset lower membership levels compared with pre-pandemic levels. While some issuers believe there is still room for price hikes, we expect any increases going forward will be moderate, and membership growth trends could slow as even wealthy consumers begin to feel inflation-induced cost fatigue.

U.S. regional theme park operators are reporting growth in early season pass sales for 2025, while theme parks in Europe are affected by muted demand. After completing its merger with Cedar Fair, Six Flags reported on its third quarter earnings call that early sales of season pass units across the combined portfolio were up 2% year over year. Although United Parks & Resorts Inc. reported flat pass sales so far through October 2024, the company recently launched an improved premium pass program for 2025, which has led to double-digit sales growth and the company expects it will drive a strong pass base for the remainder of 2024 and into 2025. Operators have also benefitted from the continued recovery in group bookings in 2024, which we expect to continue heading into 2025. The expected opening of Comcast's Epic theme park in May 2025 will likely bring increased visitation to the Orlando market, which could have positive spillover effects at competitor parks in the region. Barring any disruptions from extreme weather events during peak periods, we expect regional theme park attendance growth in the 1%-2% range in 2025, driven by increased group visitation, higher season pass sales, and the opening of new park attractions. We still expect overall attendance will remain below pre-pandemic levels, as higher costs of travel due to persistent U.S. dollar strength continues to affect the recovery in international visitation. S&P Global economists forecast U.S. GDP growth will slow in 2025 due to weaker real consumer spending growth and a modest increase in unemployment over the next two years. Since the monthly growth rate of real personal disposable income has been lagging the growth rate of consumer spending the past six months, households' aggregate spending is likely to ease in the coming quarters. Lower discretionary spending may lead consumers to pull back on leisure spending, which could limit theme park operators' ability to continue raising prices and lead to muted per capita spending growth. We expect per capita spending growth of 0%-2% at regional theme parks in 2025, in line with broader consumer spending. We expect revenue of European park operators to improve 3%-5% in 2025, while margin growth remains modest. We expect attendance to improve somewhat in the absence of negative factors that hurt 2024, like weak consumer demand, adverse weather, and large sporting events during the summer. In-park spending should increase modestly due to optimized ticket offerings and in-park marketing solutions.

We expect the toy industry to be flat to down modestly for 2025 because of cost fatigue. We believe 2024 holiday season retail sales for the toy industry were probably a few percentage points below 2023, and the overall industry likely experienced a low single digit decline for the full year. In addition, the industry this past year saw a boost in demand from adult buyers, which boosted demand in certain toy categories. However, we believe these consumers will be more fickle and more prone to forego purchases in deteriorating macroeconomic conditions than typical parent toy buyers. In 2025, our macroeconomic forecast has consumer spending slowing to about 2.3% because excess savings has dwindled. Amid persistent inflation, consumers' preferences for experiences over goods, and lower consumer spending, we believe the toy industry will be flat to down modestly in 2025 as a wearied consumer continues seeking value in toy purchases. In addition, a better-than-expected holiday season in 2024 could be a tough comparison for topline growth for toy manufacturers in 2025. Still, some manufacturers will look to counteract this and potentially aim for growth amid a stagnating industry driven primarily by toys linked to a heavier slate of feature entertainment releases scheduled throughout the year. We continue to believe the toy industry is somewhat resilient to economic slowdowns. Despite persistent inflation and an uncertain macroeconomic environment, we continue to believe consumers will reliably purchase toys for their children albeit in modestly lower volumes.

Key risks or opportunities around the baseline

1. A slowing economy may prove to be less of a headwind for the cruise industry.

The combination of a wider-than-usual gap between cruise and land-based vacations and moderating ship delivery could support deleveraging even in a slowing economy.

2. Higher interest rates could delay big-ticket leisure purchases.

While inflation came down meaningfully in 2024, some policy proposals introduce uncertainty to how quickly the Federal Reserve will lower interest rates, which could have broader implication on consumer demand for financed purchases.

3. Mid-tier operators face increased competition from high- and low-priced alternatives.

Mid-tier operators may face higher trade-down risk as consumer spending trends continue to evolve following multiple years of high inflation in a highly competitive and fragmented market.

4. Higher planned growth capital expenditures could impair financial flexibility.

Theme park operators announced significant growth capex plans to increase visitation and spending at their parks.

5. With heavy exposure to China, material tariffs could increase input costs for toy manufacturers.

We believe a universal tariff and sharply higher tariffs on Chinese imports could mean an increase in input costs and ultimately dampen gross margins for toy manufacturers.

A slowing economy may prove to be less of a headwind for the cruise industry. In our view, a slowing economy may not lead to choppy seas in 2025. Although the price gap between a cruise vacation and comparable land-based vacation has narrowed, it is still wider than usual. This gap could benefit cruise operators if customers who want to take a vacation have less money to spend and are looking for a value alternative. Therefore, we believe the risk of discounting to fill the ships is lower than in previous economic slowdowns. Furthermore, cruise operators typically have good revenue visibility over the next 12 months given a long booking cycle. The industry doesn't usually see significant spikes in cancellations if the economy weakens modestly. For large cruise operators, the booking window is around six months on average. If the economy begins slowing next year, we see more risk to yields, onboard spending, and booking volumes later in 2025 and into 2026. Nevertheless, a more moderate ship delivery schedule should allow operators to absorb some potential operating volatility and still reduce leverage despite new-ship related debt. After years of not ordering ships during the pandemic, the large cruise operators resumed ship orders in 2024. However, most operators, aside from NCL, were unable to secure deliveries earlier than 2027. NCL secured a spot for a small ship delivery in 2026. As a result, Royal will only take delivery of one ship in 2026 after two in 2025 and Carnival will have no ship deliveries in fiscal 2026 after one delivery in fiscal 2025.

The incoming U.S. administration's policies could affect big ticket leisure purchases. While many of our leisure manufacturers, especially for RVs, boats, and motorcycles, have largely domestic manufacturing facilities, widespread tariffs could result in marginally higher input costs. More importantly, if inflation picks up again or if uncertainty regarding the path downward for inflation reasserts itself, Federal Reserve officials could choose to maintain interest rates higher than our base-case forecast. This could result in a more prolonged recovery for big-ticket discretionary items, given a significant percentage of purchases are financed with consumer debt.

We believe the rise of boutique and no-frills, low-cost clubs is the biggest risk for mid-tier operators' member retention. While consumer spending is not wilting away as fast as previously expected, our most recent economic forecast for a moderation in spending in 2025 suggests members may begin to trade down to value options to save money amid persistent inflation. More specifically, gym-goers may choose budget-friendly alternatives with fewer services that still satisfy their fitness needs, a targeted fitness option, or both. We believe this consumer evolution could pressure mid-tier fitness operators and lead to consolidation. Persistently higher build costs in 2025 may result in a higher cost per square foot for new club builds, which could result in fitness center issuers pulling back on overall growth capital expenditures and the number of new clubs in development. This would potentially result in a moderation of new members over time and lower top-line growth. Operators who struggle to adapt could become acquisition targets, leading to consolidation—especially in the highly fragmented mid-tier space. With persistent high build costs potentially slowing topline growth, we could see an increase in M&A activity as fitness operators look for external avenues for growth.

Higher growth capital expenditures could reduce regional theme parks' financial flexibility in the near term**.** While 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, the industry competes more broadly 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.

For example, Six Flags recently announced it expects to invest between $500 million and $525 million in capital expenditures in both 2025 and 2026. The investments will be primarily focused on accelerating the integration of its recent merger with Cedar Fair, growth projects aimed at increasing demand and driving higher levels of guest spending, and addressing deferred infrastructure needs across the portfolio. United Parks & Resorts Inc. continues to explore opportunities for hotel development on land adjacent to its parks. Disney has announced a significant increase in capex over the next 10 years, some of which will be spent on updating and opening new attractions across all of Disney’s parks globally.

We believe theme park operators have prioritized cash flow recovery and leverage improvement ahead of park improvements. However, improving balance sheets and the need to reinvigorate parks with new rides, attractions, and amenities to stay competitive may cause a significant increase in capital outlays for rated theme park issuers.

To the extent there is a meaningful pullback in discretionary spending that leads to broad declines in attendance and per capita spending at theme parks, rated theme park operators could be exposed to heightened risks and limited financial flexibility to reduce leverage during a period of elevated investment.

Increased tariffs could pressure toy manufacturers margins. Our current macroeconomic forecast assumes President-elect Trump will impose targeted tariffs on China by raising the bilateral effective tariff rate (weighted average) on Chinese imports to 25% (from estimated 14% currently). Prodded in part by tariff threats in 2019 under the first Trump administration, there has been a long-term trend across the toy industry to make fewer toys and games in China by relocating factories and diversifying supply chains. Rated toy manufacturers Mattel and Hasbro have made efforts to shift production away from China, and only about 50% and 40% of production in 2024 is sourced from China respectively with both issuers pursuing strategies to reduce exposure further in 2025. While exposure to China has decreased over the past few years, we believe a universal tariff and sharply higher tariffs on Chinese imports could mean an increase in input costs and ultimately dampen gross margins. While toy manufactures will try to pass on these higher input costs to the degree they can, ultimately retailers' willingness to continue to share higher input costs with toy manufacturers depends on consumers' willingness to pay higher prices. We believe amid a somewhat flat toy industry, material tariffs could pose a significant burden on margins and may lead to weaker credit metrics.

Related Research

- NCL Corp. Ltd. Outlook Revised To Positive On Expected Deleveraging, Proposed Unsecured Notes Rated 'B+' (Recovery: '4'), Jan. 7, 2025
- Carnival Corp. Outlook Revised To Positive On Favorable Bookings And Expected Deleveraging; 'BB' Rating Affirmed, Dec. 23, 2024
- T&L Holdco Ltd. (Travelodge) Outlook Revised To Negative On Soft Demand And More Cost Pressure; 'B' Rating Affirmed, Dec. 16 2024
- Affinity Interactive Downgraded To 'CCC+' From 'B-' On Weak Performance, Refinancing Risks; Outlook Stable, Dec. 3, 2024
- Catawba Nation Gaming Authority Assigned 'B' Issuer Credit Rating; Outlook Stable; Proposed Debt Rated, Dec. 2, 2024
- Merlin Entertainments (Motion Midco Ltd.) Downgraded To 'B-' Following Weak Trading Performance; Outlook Stable, Nov. 28 2024
- TUI Cruises Upgraded To 'BB-' On Stronger Earnings And Deleveraging; Outlook Stable; Proposed Notes Rated 'B+', Nov. 18 2024
- Ticketing Companies Win Big From Funflation In Live Entertainment, Nov. 4, 2024
- Caesars Entertainment Inc. Outlook Revised To Stable From Positive On Weaker Operating Performance; 'B+' Rating Affirmed, Nov. 1, 2024
- Royal Caribbean Cruises Ltd. Outlook Revised To Positive On Expected Improvements In 2025, Oct. 29, 2024
- Aimbridge Acquisition Co. Inc. Downgraded To 'CCC' On Rising Refinancing Risk; Outlook Negative, Oct. 10, 2024
- Hotel Owner And Operator AccorInvest Group Assigned 'B' Rating; Outlook Stable; Notes Rated 'B+', Sep. 26 2024

Industry Forecasts: Hotels, Gaming, and Leisure

Chart 9

Revenue growth (local currency)

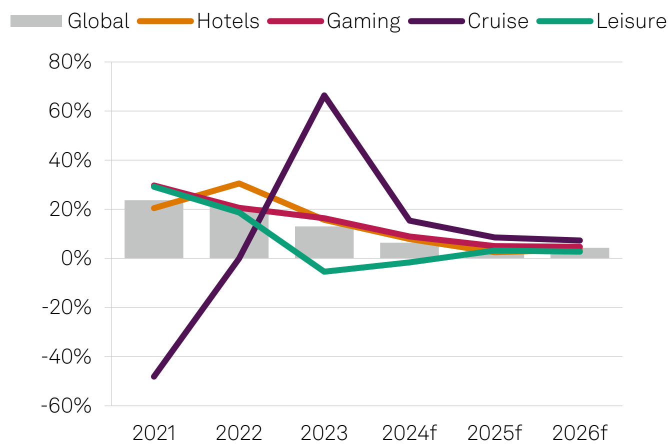


Chart 10

EBITDA margin (adjusted)

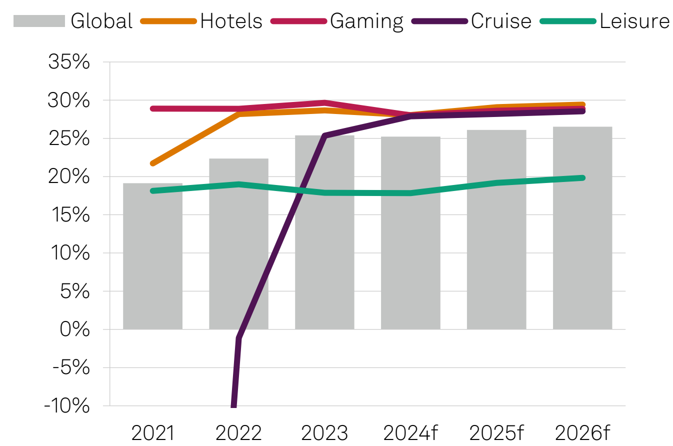


Chart 11

Debt / EBITDA (median, adjusted)

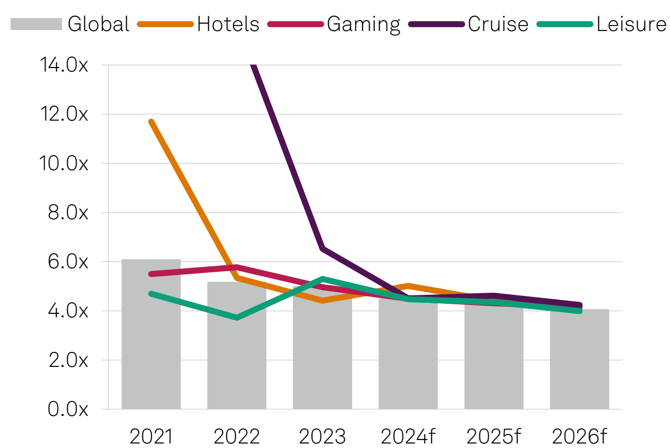
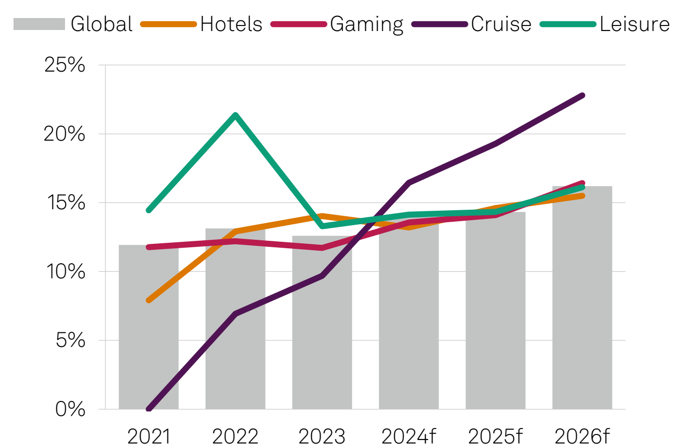


Chart 12

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 13

Cash flow and primary uses

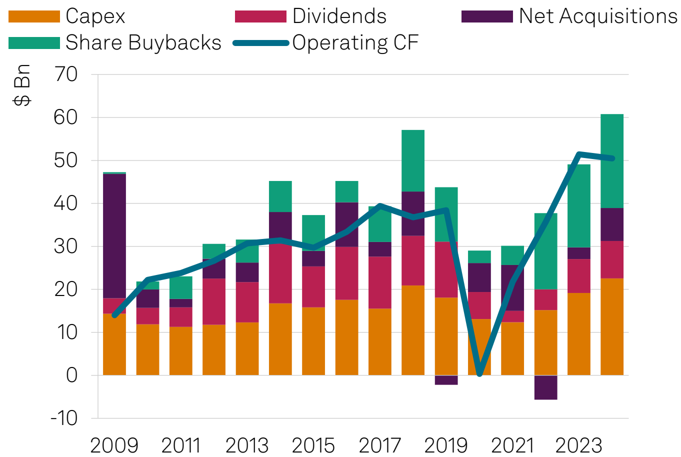


Chart 14

Return on capital employed

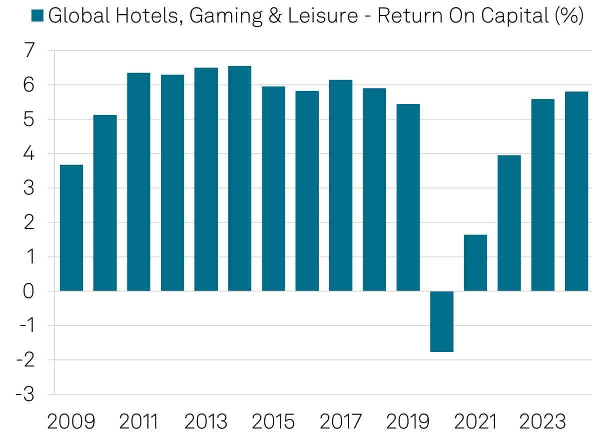


Chart 15

Fixed- versus variable-rate exposure

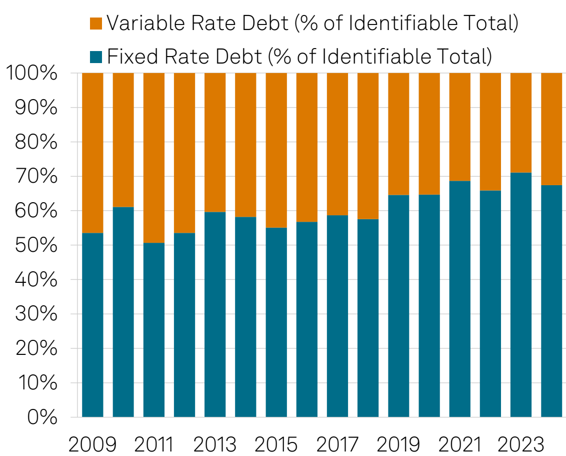


Chart 16

Long-term debt term structure

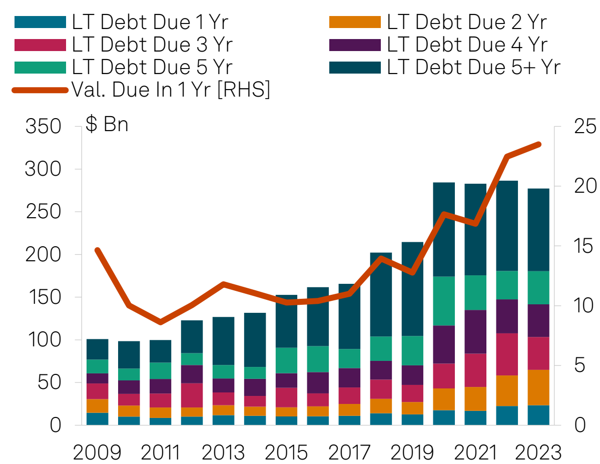


Chart 17

Cash and equivalents / Total assets

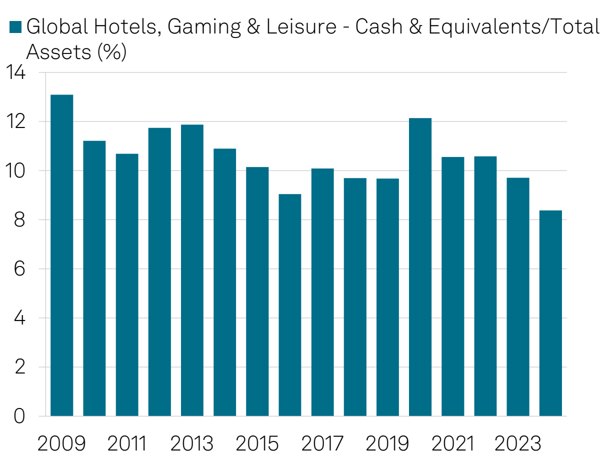
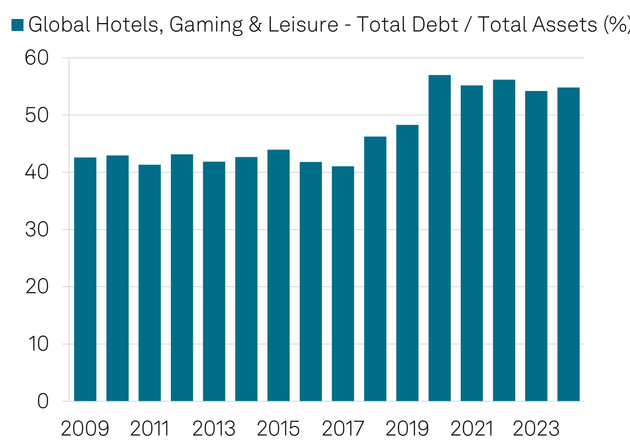


Chart 18

Total debt / Total assets



Source: S&P Capital IQ, S&P Global Ratings calculations. Most recent (2024) figures use the last 12 months' data.