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Business Outlook Winter 2003

Domestic, U.S. and Overseas Travel to Canada

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Domestic, U.S. and Overseas Travel to Canada

Short-Term Business Outlook
Winter 2003

Prepared by

The Conference
Board of Canada

For the

Canadian Tourism Commission

November 2002

WHAT'S INSIDE

The purpose of this study is to provide a short-term outlook for domestic & international travel to Canada for the first quarter of 2003 (January 2003 to March 2003) using readily available market intelligence in a timely and cost-efficient manner.

The short-term outlook for travel to, and within, Canada for the first quarter of 2003 should be interpreted in context with the uncertainty still surrounding world affairs. In this respect, the outlook is presented as being valid only under status quo conditions.

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Executive Summary

Highlights

The outlook for Canada's key markets for the first quarter of 2003 (relative to the first quarter of 2002) is as follows:

- Domestic leisure travel is up 4 per cent overall, group travel increasing 1.6 per cent and fully independent travel (FIT) up 4.4 per cent;
- Domestic business modestly increasing 1 per cent overall;
- United States leisure up 2.7 per cent overall, with a 3.5 per cent increase in group travel and 2.5 per cent increase in FIT;
- United States business up 2 per cent overall;
- Mexico up 2.5 per cent overall;
- Brazil up 2.5 per cent overall;
- United Kingdom up 4.8 per cent overall, with a 3 per cent increase in group travel, 5.5 per cent growth in FIT and 4 per cent growth in business;
- France travel is expected to increase 1.1 per cent overall, with group travel increasing 2 per cent, the FIT segment flat and business up 2 per cent;
- German visits to Canada will experience an overall increase of 3.9 per cent, with group travel increasing 2 per cent, the FIT climbing 5.5 per cent and business up a modest 1.5 per cent;
- Italy will increase overall by 1 per cent;
- Netherlands expected to increase 3 per cent overall;
- Japan expected to grow a modest 1 per cent overall; Japan group travel will expand only by 0.5 per cent while FIT leisure travel will be slightly stronger (+1.5%). Business travel is expected to rise 2 per cent;
- Taiwan should fall by 5 per cent overall as group travel is down 8 per cent. FIT is expected to grow 4 per cent while business travel should register a 3 per cent gain;
- South Korea to rise 1.5 per cent overall;
- Hong Kong is up 2.5 per cent overall;
- China to experience growth of 3.8 per cent overall;
- Australia is up by 3.5 per cent overall, with a 6 per cent increase in group travel and 2 per cent growth in FIT;
- New Zealand up by 1.5 per cent overall.

Background

The short-term Business Outlook (BO) provides performance scenarios for Canada's major travel markets. These scenarios are based on survey data as well as the Canadian Tourism Institute's (CTRI) own medium term forecast. A quarterly survey of advance bookings and market intelligence is derived from the *Destination Supplier/Receptive Agent Monitor*. This monitor was developed by CTRI, on behalf of the Canadian Tourism Commission (CTC). To bolster the quality of the monitor, quarterly staff reports and surveys of key tour operators – developed by the CTC's foreign offices – are also incorporated.

Please note that, since the outlook's scope is restricted to the first quarter of 2003, all growth comparisons are reported on a year-over-year basis compared with the first quarter of 2002.

North America Markets

Canada

The Canadian economy is soaring. In fact, Gross Domestic Product (GDP) gains in Canada are stronger than in any of the other G-7 countries. The strongest employment growth in nine years is lifting incomes higher. As incomes rise, so too is tourism spending. While some regions may lag behind, overall domestic tourism should rise by a healthy 3 per cent through the first quarter of 2003. Independent leisure travel will continue to fuel the growth, expanding 4.5 per cent during the first quarter of 2003.

Canadians' winter vacation intentions are up. We expect that travel should not just rise to the U.S., and other international destinations, but in Canada too. The Conference Board of Canada's Winter 2002 *Travel Intentions Survey* indicated that 42 per cent of Canadians plan on taking a winter vacation in Canada between November 1, 2002 and April 30, 2003. This figure is up substantially from 38 per cent last year when the survey was conducted in October 2001.

A sluggish rebound in the U.S. economy will weigh on business travel in Canada. Canadian firms are unavoidably affected by the fortunes of firms in the U.S. While business confidence in the U.S. and Canada has been trending higher over the last year, firms have been slow to return to even less than lavish levels of spending enjoyed just two years ago. The short-term outlook for domestic business travel is for a modest 1 per cent increase.

U.S.

The U.S. is a tale of two economies. On one-hand, the consumer is healthy, leading to near record levels of car sales and housing starts. On the other hand, a sliding stock market and increasing uncertainty—the potential for war in Iraq—is weighing on businesses and has made them more cautious. Thus, business travel to Canada should increase by a modest 2 per cent during in the first quarter of 2003.

Leisure travel is expected to post healthier increases—in part because Americans are heavily favouring destinations that speak English and have a similar culture. In an annual survey by Harris Interactive, Canada moved into its highest ever position (4th, up from 9th) regarding countries an American would most likely visit if they did not have to worry about cost. Fortunately, stock market worries have not dramatically affected overall U.S. travel decisions to Canada.

Overall, our outlook suggests that leisure travel will experience 2.7 per cent growth during first quarter of 2003. In particular, group leisure travel to Canada should increase by 3.5 per cent, while foreign independent travel (FIT) is expected to rise by 2.5 per cent.

Mexico

Mexico's economy is in the midst of a recovery. An early summer rebound in the U.S. manufacturing activity, as well as higher oil prices have lifted Mexican prospects. Thus, Canada will continue to benefit from more Mexican visitors. *BO Monitor* participants expect growth of 2.5 per cent during first quarter of 2003. The appreciation of the peso versus the Canadian dollar should also help. Of all segments, independent FIT travellers are expected to post the biggest gains.

Brazil

Brazil's economy is in a very uncertain state. Targets set by the IMF (International Monetary Fund) to reduce Brazil's deficit are being jeopardized by the presidential election. Solutions to these problems seem far from being resolved. The economic situation has affected both inbound and outbound tourism. In the past year, many Brazilian tour operators have gone bankrupt—those who have survived have done so by merging and growing.

According to the *BO Monitor* participants, 2.5 per cent more Brazilians are expected to visit Canada in the first quarter of 2003. While this may sound optimistic, one should keep in mind that Brazilian visits to Canada plunged 35 per cent during those same months this year—the worst performance of any international market.

European Markets

U.K.

The U.K. economy is healthy thanks to solid gains in real wages. Price conscious consumers had their pick of packages during the summer, due to the massive growth of low-cost airlines. This trend will not disappear anytime soon. According to the CTC, interest in ski packages to Canada during the first quarter of 2003 is good. A slight increase in air capacity during this period should not constrain the expected increase in visitors from the U.K.

Overall, we expect the number of U.K. visitors to increase by 4.8 per cent during the first quarter of 2003. Since visitor arrivals also rose this year (+3.8%), Canada appears to be making significant inroads into the U.K. travel market. While U.K. business travel to Canada in early 2003 is still expected to lag leisure, it should post a solid 4 per cent gain.

France

Weaker consumer and business confidence, coupled with limited air capacity growth to Canada, will weigh on French travel. In fact, French tour operators have identified air capacity as a problem. The anticipated 1 per cent gain in French travel to Canada during the first quarter of 2003 is not expected to alter the situation much. The brightest hope of future growth, is an expected 2 per cent rise in the number of both group leisure and business travellers.

Overall, French travel to Canada is expected to grow a meager 1.1 per cent during the first quarter of 2003. In 2002, travel from France declined 12 per cent during the first three months of 2002 – the worst performance among the major European markets.

Germany

German leisure FIT travel is expected to increase by 5.5 per cent during the first quarter of 2003. The rise is supported by strong gains in air capacity. Unfortunately, travel from Germany was down by over 10 per cent during the first quarter of 2002. Like France, air capacity has been identified as a constraint to growth for tourism in Canada. It has been noted that Germans coming to Canada using packages are increasingly looking for non-traditional packages that allow them to book late and heavily customize their itinerary.

Italy

Coverage of the Pope's visit to Toronto in July was excellent and reports about the improvement in the Pope's health after his Canadian visit was a perfect testimonial for Canada. However, the weak state of the Italian economy will constrain the enthusiasm for more Italians to visit Canada over the short-term. On top of economic pressures, Canada faces tough competition from other long haul markets currently favoured by Italian visitors. Fortunately, with security still being a deterrent for Italian travel to the U.S., Canada is viewed as a good alternative to the U.S. The number of visitors from Italy is expected to rise by 1 per cent in the first quarter of 2003. It should be noted that, as is the trend worldwide, most bookings will be last minute.

Netherlands

Consumer confidence is at a nine year low in the Netherlands and purchasing power is expected to decline next year. But while confidence is low, wealth is not. Thus, we expect Dutch travel to Canada to increase 3 per cent during the first quarter of 2003. Increased air capacity will also help get more Netherlanders to Canada. The increased capacity helps address some of the concerns expressed by Dutch tourism operators. Last year, travel from the Netherlands declined nearly 13 per cent during the first three months of 2002.

Asia/Pacific

Japan

The dour economic situation in Japan continues. Deflation is a concern and economic worries feature high on consumers' lists. While package tour sales are starting to show signs of growth, sales to Canada and the U.S. continue to lag behind. The hope is that middle-aged and older Japanese people continue to be active travellers. While a survey by the *Travel Journal International* reported travel demand by younger consumers is down, the senior's market, especially men in their late 50's, is increasing. Air capacity for those choosing Canadian holidays should not represent a problem as 12 per cent more seats are expected to be available in early 2003 compared to what was available in early 2002.

BO Monitor participants suggest overall travel to Canada for the first quarter will increase 1 per cent, compared with last year. In the first quarter of 2002, travel from Japan—Canada's third most important international travel market—declined by a staggering 23 per cent.

Taiwan

The Taiwanese economy continues to fare well. Unfortunately, air capacity to Canada is being reduced. Cuts to air capacity will result in approximately 6 per cent fewer seats being available for direct travel to Canada during the first quarter of 2003. With the capacity cuts, getting visitors to Canada could pose a larger than usual problem. As such, *BO Monitor* participants have suggested visits during the first quarter of 2003 from Taiwan could decline by 5 per cent. If this occurs, it will happen on top of the dramatic 32 per cent decline witnessed during the first quarter of 2002. Of all travel segments, we expect that group leisure travel will be hit the hardest.

South Korea

The South Korean economy is doing well. Following stellar 6 per cent plus growth in 2002, GDP should increase by nearly 6 per cent again in 2003. The tourism outlook is also encouraging – up 1.5% compared with the first quarter of last year. In addition, South Korean business travel is expected to increase 2 per cent, while FIT leisure travel should post a modest 1.5 per cent gain. While these gains may seem unassuming, they are on top of strong growth witnessed over past years. However, marginal air capacity growth of 2 per cent may represent a constraint. In addition, since Koreans are very price conscious regarding tourism destinations, Canada will have to remain competitively priced in order to increase market share.

Hong Kong

The Hong Kong economy is emerging from the woods but still faces many challenges before it can expand significantly. Because of the many economic challenges tour operators are facing, as well as an extremely competitive travel agency environment in Hong Kong, some are chopping prices on first quarter travel packages. Indeed, since the beginning of this year, the average package price has dropped by 20 per cent. Long-haul destinations such as Canada could face increasing competition from short-haul destinations as mono-destinations close-by increase in popularity.

BO Monitor participants expect FIT leisure travel from Hong Kong to increase 3.5 per cent. Meanwhile, overall visits from Hong Kong are expected to rise by a more modest 2.5 per cent.

China

China's economy has been expanding at robust rates. Tourism, both inbound and outbound, is also expected to flourish. With the increase in the number of outbound tourism operator licenses, the number of potential visitors from China will increase—though the competition for these visitors will be intense. Being aware that Chinese consumers (and trade personnel) require information in Chinese is one way to gain an edge. The results from *BO Monitor* participants suggest that travel from China during the first quarter of 2003 will increase 4 per cent, with FIT leading the way.

Australia

Australia remains a good source of visitors. Ski packages to B.C. and Alberta will continue to be popular with Australians. In particular, group travel is expected to increase 6 per cent according to *BO Monitor* participants, while business travel growth is expected to remain flat. Overall, the short-term outlook is for Australian visits to increase 3.5 per cent during the first quarter of 2003. Unfortunately, during 2002, visits from Australia fell by nearly 18 per cent during the first quarter.

New Zealand

While the New Zealand economy is softening, there is still room for modest growth in 2003 following a grim travel year in 2002. New Zealand travel to Canada, according to *BO Monitor* participants, is expected to increase 1.5 per cent over first quarter of 2003. Competitive airfares between New Zealand and Canada will no doubt help the situation. *BO Monitor* respondents expect group leisure travel to Canada during the first quarter of 2003 will increase 2.5 per cent.

International Travel Statistics – Statistics Canada

OVERNIGHT TRAVEL TO CANADA, JANUARY-JULY, 2002

SOURCE	PERSON-TRIPS	CHANGE OVER 2001(%)
United States	9,142,953	1.0
Mexico	98,593	1.97
Europe	1,132,853	-12.85
United Kingdom	422,911	-14.05
France	169,047	-15.62
Germany	158,122	-17.29
Netherlands	62,884	-11.07
Italy	18,346	6.87
Asia	663,340	-9.68
Japan	210,407	-17.84
South Korea	90,212	2.98
Taiwan	61,511	-22.04
Hong Kong	72,547	-12.48
Oceania	107,172	-12.28
Australia	88,168	-12.84

Source: International Travel, Statistics Canada.

Introduction

The short-term outlook presented in this report for domestic and international travel to Canada for the first quarter of 2003 (January - March) involves a Business Outlook (BO) that is developed and administered by the Canadian Tourism Research Institute (CTRI). The BO integrates primary data of advance bookings along with pertinent market intelligence.

One source of advance bookings and market intelligence is *Destination Supplier–Receptive Agent Monitor*. The *Monitor* obtains advance international booking information from key destination suppliers and receptive agents in Canada. Another source of advance bookings and market intelligence for the BO comes from quarterly reports issued by the Canadian Tourism Commission (CTC) foreign posts. In order to provide more assistance to the BO, many of the quarterly reports have been enhanced with results from a trade questionnaire. The trade questionnaire is administered by the CTC foreign posts and obtains advance bookings and market intelligence from key foreign tour operators in each country.

The goal of the BO is to generate short-term performance indicators using readily available market intelligence in a timely and cost effective manner. Success with this short-term outlook will be achieved if the initiative helps direct the efforts of the CTC and the industry at large more effectively for the upcoming tourism season.

All advance-booking data and market intelligence collected by the *Destination Supplier–Receptive Agent Monitor* is confidential and not included in the short-term outlook if any individual response can be singled out. All dissemination of *Monitor* responses, either in the form of a monthly report to participants or the short-term outlook report issued by the CTC, will involve consensus reporting. In this respect, there is no mention of individual participant responses.

While reviewing the outlook for the major international markets discussed in this report, the reader is reminded to refer to the Appendix 1: Medium-Term Travel Forecasts (CTRI) to get a quick perspective of how the short-term travel outlook corresponds to the latest medium-term forecast generated by the CTRI.

Economic Overview

World Outlook

In the first half of this year, the world economy managed to shake off the economic downturn that transpired in 2001. However, the recovery has been very weak, and in the second half of this year some regions of the world appear to be slipping back into recession. The problem for the world economy is that the three most powerful economies, namely the United States, Japan and Germany are in varying degrees of trouble. As a result, real economic growth worldwide is expected to be only 1.6 per cent this year, not much more than the 1 per cent growth recorded in 2001.

There are some bright spots in the world economy. Canada, Malaysia, Russia and Thailand are all faring better than expected. However, the global manufacturing recovery remains elusive, especially in the United States and this factor has continued to undercut the expected gains in commodity prices. This has undermined some commodity-dependent countries like Chile, Indonesia and Peru, among others. Most countries in South America face either economic or political problems and growth in Europe is sluggish due to the weak growth in the German economy.

In 2003, the picture will be somewhat brighter mainly because of an anticipated recovery in the U.S. economy. This will be crucial to the outlook because the economies of Germany and Japan are not expected to show much improvement in 2003. The recovery in the U.S. is based on the view that investment spending will rebound in line with reduced inventories and a rebound in corporate profitability. The world economy is expected to expand by 2.8 per cent in 2003.

North America

Real GDP in North America is expected to expand by 2.4 per cent this year and 3.1 per cent in 2003. The rebound in 2003 is based on the recovery in the U.S. economy and the positive impact that this will have on export growth in both Mexico and Canada. The slow growth in the U.S. economy this year is a major factor behind the less than 1 per cent growth anticipated in Canadian exports. However, real growth of close to 4 per cent in real exports is expected next year in line with a faster growing U.S. economy. Similarly, Mexican exports will pick up next year as American corporations increase demand for Mexican manufactured products.

South America

This year has brought one debacle after another in South America and the economic numbers reflect the grim picture in this part of the world. Real GDP in the region is expected to decline this year after being flat in 2001. An economic collapse in Argentina, a failed coup and subsequent economic crisis in Venezuela, street protest in Peru and Paraguay and financial difficulties in Brazil are some of the more serious problems. Also, a four-decade conflict between Columbia's government and Marxist guerillas has been heating up recently. While most of the economic difficulties, especially in Venezuela and Argentina, are self-made, plummeting world commodity prices, especially for coffee is also a factor in explaining the region's woes.

Next year, real growth in the region is expected to rebound and expand by 3 per cent. While the economies of Argentina and Venezuela will remain in the doldrums, a better economic performance is anticipated in the powerful Brazilian economy. Moreover, the Chilean economy – a rock of stability in the region – will continue to expand at a solid pace.

Euroland

Widespread weakness in summer and early fall economic data releases confirmed that the economic recovery in the euro area has stalled. Business confidence is dropping in most European countries and OECD leading indicators in the euro area are all on the decline. A stronger euro and the deteriorating global outlook have hurt export sales while domestic demand has been undermined by weak consumer spending, which has been negatively affected by declining wealth. Unemployment remains high due to structural problems. Sluggish retail sales volumes will continue to erode corporate pricing power and suppress profits.

The world economy needs a strong Europe to support global demand. The hope is that the European Central Bank (ECB) will reduce interest rates by the end of the year. However, the ECB has always had a bias towards fighting inflation and, given that inflation remains above its target of 2 per cent, it is unlikely that the ECB will take drastic action in the immediate future. Economists feel that weak growth and the improvement in the euro will help to calm inflation fears and force the ECB to loosen monetary policy in 2003. Real GDP growth of only 1.1 per cent is anticipated this year and a slight rebound in growth to 2.3 per cent is forecast for 2003.

Asia-Pacific

With the exception of Japan, the economic prospects in this part of the world are fairly optimistic. The macroeconomic fundamentals in countries like South Korea, Malaysia, Indonesia and the Philippines are much more stable compared with the situation in the late 1990s. The pile of short-term debt foreign-currency debt that led to the 1997-1998 panic has mostly been repaid or rescheduled. Most currencies are no longer fixed and central banks have increased their foreign currency reserves. East Asia is also not as dependent on U.S. growth to keep its economies afloat. The drop in demand for electronic equipment has not hurt the region as much as some economists had originally feared. This is likely because countries are rebuilding trade with each other. While Japan is still in trouble, rapid growth in China's relatively small trade sector is boosting demand in the region. These trends have helped exports expand by 20 per cent so far this year. Real GDP growth of more than 4 per cent in the 2002-2003 period (minus Japan) is expected.

Exchange Rates

EXCHANGE RATE COMPARISON – SEPTEMBER 2001 TO SEPTEMBER 2002

	PER CENT CHANGE IN EXCHANGE RATES BETWEEN SELECT COUNTRIES						
	CANADIAN DOLLAR	U.S. DOLLAR	BRITISH POUND	EURO	JAPANESE YEN	TAIWANESE DOLLAR	AUSTRALIAN DOLLAR
Canadian dollar	--	-0.5%	-6.4%	-7.5%	1.5%	-1.6%	-8.2%
U.S. dollar	0.5%	--	-5.9%	-7.0%	2.0%	-0.1%	-7.8%
British pound	6.8%	6.3%	--	-1.2%	8.5%	6.2%	-1.9%
Euro	8.1%	7.6%	1.2%	--	9.8%	7.4%	-0.8%
Japanese yen	-1.5%	-2.0%	-7.8%	-8.9%	--	-2.1%	-9.6%
Taiwanese dollar	0.6%	0.1%	-5.8%	-6.9%	2.2%	--	-7.6%
Australian dollar	8.9%	8.3%	1.9%	0.7%	10.5%	8.2%	--

Source: The Conference Board of Canada.

Domestic (Canada) Travel Outlook, Q1 2003

Economic Overview

Recent indicators confirm that the Canadian economy is performing better than that of any large industrialized economy in the world. Fueled by solid domestic demand and a huge build-up in inventories, real Gross Domestic Product (GDP) advanced at an annual rate of 4.3 per cent in the second quarter of 2002. Increased spending on services and durable goods, net of autos, boosted consumer expenditures in the second quarter, allowing them to maintain the first quarter pace of 0.7 per cent. Meanwhile, an increase in spending on machinery and equipment more than offset an easing in residential investment, to allow business investment in plant and equipment to register its strongest showing since fourth quarter 1999.

Canada's labour market continues to bustle. For the eighth consecutive month, employment increased in August. The private sector accounted for most of the monthly net gain in new jobs. The bulk of the new jobs came from the manufacturing sector, followed by the construction sector. On a regional basis, the majority of the jobs were created in Ontario and British Columbia.

Rising energy prices and higher tobacco taxes boosted the all-items consumer price index by 0.5 per cent in July. The hefty monthly gain lifted the inflation rate to 2.1 per cent from 1.3 per cent in June. Following three successive interest rate hikes, the Bank of Canada held steady early in September. The Bank cited weakness in the United States and overseas economies and volatile global financial markets as reasons for holding steady.

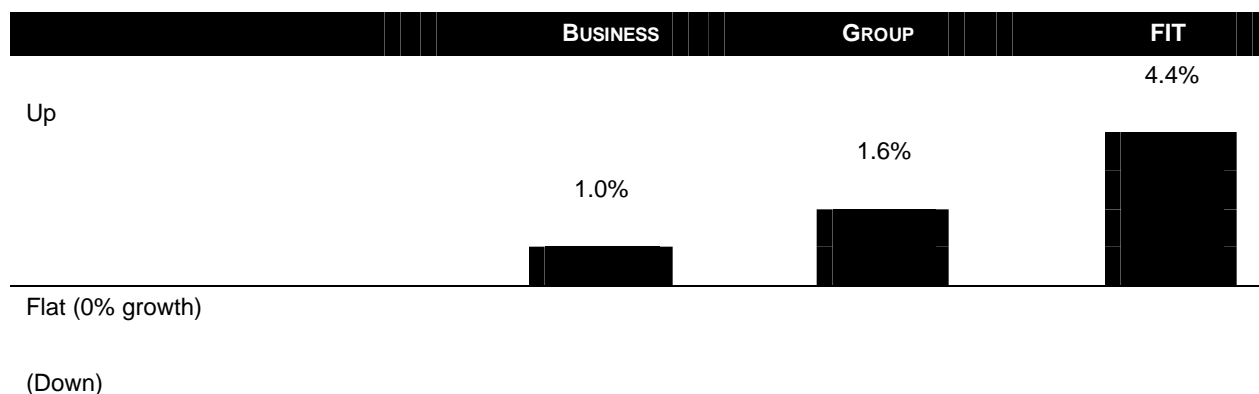
Destination Supplier–Receptive Agent Monitor, Business Outlook

Similar to the fourth quarter of 2002, the business outlook—as indicated by Canadian travel suppliers and receptive agent bookings—suggests a decent 2.9 per cent rise in overall advance bookings for domestic travel for the first quarter of 2003, compared to the previous year.

Leading the growth will, once again, be domestic leisure FIT bookings. According to *BO Monitor* participants, domestic FIT for the first quarter of 2003 is expected to increase 4.4 per cent versus the first quarter of 2002. Domestic group leisure is expected to increase 1.6 per cent while business bookings register a marginal 1 per cent growth. Business travel growth is expected to remain modest as economic uncertainty remains.

Bookings are still coming much closer to actual travel dates—even for large groups. *BO Monitor* respondents also indicated that growth is very regional with big cities like Toronto lagging behind the rest of the country. Still, because Quebec is expected to post strong growth, the Ontario/Quebec region should expand by 2.5 per cent in the first quarter compared with a year earlier. Atlantic Canada will lead the country with growth of 4.5 per cent, followed by Alberta/British Columbia enjoying a 3.5 per cent gain. Manitoba/Saskatchewan are expected to rise by 2.0 per cent.

DOMESTIC TRAVEL Q1 2003
EXPECTATIONS FOR DOMESTIC Q1 TRAVEL IN 2003, COMPARED WITH LAST Q1



Source: *Q1 2003 Business Outlook System, Canadian Tourism Research Institute.*

Consumer Confidence and Travel Intentions, The Conference Board of Canada.

Canadian consumers have recently lost a bit of the confidence gained during the spring and summer. Still, after falling sharply in July and August, consumer confidence started to climb again in September. The climb is being driven by the strong economy—particularly in terms of employment growth. In September, consumer confidence stood at 123.7 which is still 15 point higher than the index's 10-year average.

CONSUMER CONFIDENCE
(1991=100 INDEX)

	2002:06	2002:07	2002:08	2002:09
Consumer Confidence Index	128.4	124.1	121.6	123.7

Source: *The Conference Board of Canada.*

According to the Conference Board of Canada's latest *Winter 2002 Travel Intentions Survey*, conducted in September 2002, 42 per cent of Canadians intend on taking a winter vacation (defined as between November 1, 2002 and April 30, 2003) this year. This figure is up substantially from a year ago when the survey was conducted in October 2001. As a result, more outbound and domestic trips should be taken this winter. The latest *Winter 2002 Travel Intentions Survey* suggests of those who intend to take a winter vacation, 46 per cent plan to take that vacation within Canada. Last winter domestic travel prospered at the expense of international and US destinations, while this winter all destinations are expected to grow.

Overall, air travel is the favoured mode of transportation for leisure travel during the winter. But, of those intending to vacation within Canada, 73 per cent of respondents indicated they will use their personal car.

WINTER VACATION INTENTIONS (%)

	2001/02	2002/03
Vacation Intended	38.2	42.3
Canada	19.5	19.6
US	8.6	9.0
Other	10.1	13.7

Source: The Conference Board of Canada.

WINTER VACATION TRANSPORTATION CHOICE (%)

	2002
Car	73
Plane	17
Bus	5
Train	3
RV	*
Other	3

Source: The Conference Board of Canada.

* Negligible amount

Summary Outlook for Q1 2003

Leisure travel will once again post the strongest growth in the first quarter of 2003. In fact, during the first quarter, all segments of the tourism industry are expected to experience growth, compared to the levels witnessed during the same period a year ago. Overall, the short-term outlook reported by *BO Monitor* participants indicates that total domestic bookings for the first quarter of 2003 will rise 2.9 per cent compared with the same period this year. Domestic leisure travel is expected to increase by a cumulative 4.0 per cent as group leisure travel expands 1.6 per cent and independent leisure (FIT) travel increases by 4.4 per cent. Meanwhile, domestic business travel is expected to rebound by a modest 1.0 per cent.

While business travel is expected to rebound slightly, business travellers continue to search for reasonable alternatives to traditional travel modes. In this regard, low cost carriers are playing a bigger role in many companies' travel policies. In the past, business travel pricing reflected what the market could bear, while leisure travel was to a certain extent, subsidized. Now the pressure is on for suppliers to emphasize value. The price paid must be tied to the value received. In the end, the difference paid by business and leisure travellers needs to reflect the tangible and valued difference in the service they receive.

On the whole, *BO Monitor* participants expect Atlantic Canada to be the growth leader for domestic travel during the first quarter of 2003—up 4.5 per cent. It is also expected that domestic travel Alberta/British Columbia will likely be helped with the introduction of new low cost carriers. Specifically, *BO Monitor* participants expect domestic travel in Alberta/BC during the first quarter to increase 3.5 per cent, compared to the first quarter of 2002.

U.S. Travel Outlook, Q1 2003

Economic Overview

The economic recovery in the United States has slowed down considerably, mainly because of ongoing weakness in the manufacturing sector. The sector appeared to be on the verge of a solid comeback in May, but the weak profit outlook and accounting scandals have led to more setbacks. Fortunately, Americans continue to buy cars and homes at a record-setting pace. Solid consumer spending suggests that the U.S. economy will not experience a double dip recession.

Despite weak labour markets and swooning equity markets, Americans continued to flock to car dealerships in August. The availability of zero per cent financing sent vehicle sales to an annualized pace of 18.7 million units. The strong sales pace has been depleting inventories and setting the stage for stronger production in the fourth quarter of this year. New home sales also continued to soar during the summer. The driving forces behind housing demand are very low mortgage rates, aggressive mortgage lending, and portfolio shifting by households out of stocks and cash and into housing.

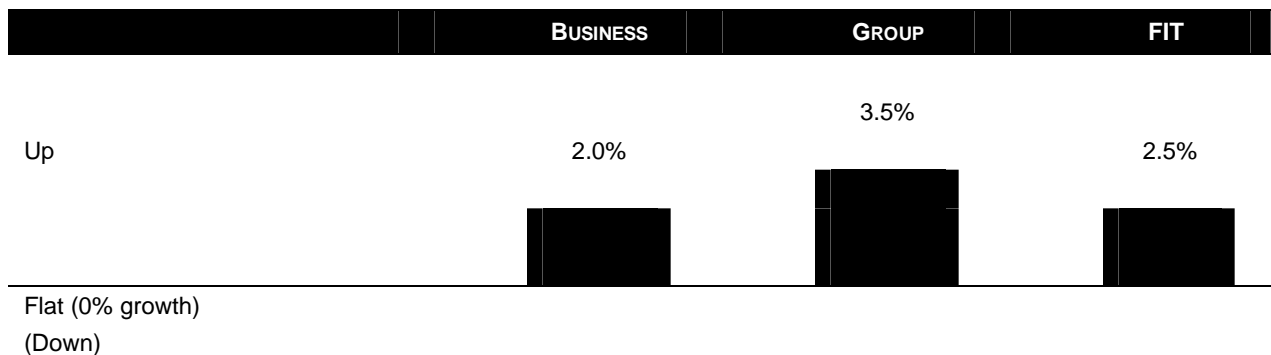
Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook—as indicated by Canadian travel suppliers, Canadian receptive agent bookings and U.S. tour operators—for U.S. travel to Canada in the first quarter of 2003 is for a 2.6 per cent increase versus last year. The outlook for U.S. group leisure travel in the first quarter suggests a 3.5 per cent gain—the highest among all segments measured. Next in line is independent leisure travel (FIT) which is expected to rise by 2.5 per cent in the first quarter. Business travel is expected to grow, but at a slower rate of 2.0 per cent.

Atlantic Canada's outlook for U.S. travellers is the rosiest—an increase of 5 per cent is expected. Visits to Alberta/BC are expected to gain 3.5 per cent in the first quarter while visits to Ontario/Quebec rise 2.5 per cent. The outlook for US visits to Manitoba/Saskatchewan during the first quarter is for a more modest gain of 1 per cent.

U.S. TRAVEL Q1 2003

EXPECTATIONS FOR U.S. Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH SAME PERIOD 2002



Source: Q1-2003 Business Outlook System, Canadian Tourism Research Institute.

U.S. Consumer Confidence and Travel Intentions Survey, The Conference Board Inc.

The Conference Board Inc.'s Consumer Confidence Index, which had fallen sharply in July, deteriorated further in August. The Index is now at its lowest level since November 2001. The month-to-month decline in the Present Situation Index suggests that business conditions have yet to turn around and that consumer spending is not likely to gain momentum anytime soon. Expectations, while also less favourable this month, remain at levels that, historically, indicate continued economic expansion, albeit slowly.

CONSUMER CONFIDENCE (1985=100 INDEX)

	MAY. 2002	JUNE 2002	JULY. 2002 (R)	AUGUST 2002 (P)
Consumer Confidence Index	110.3	106.3	97.4	93.5
Present Situation	111.2	104.9	99.4	92.0
Expectations	109.7	107.2	96.1	94.5

Source: The Consumer Research Center, The Conference Board Inc. U.S.U.S. Consumer Confidence

The latest *U.S. Vacation Travel Intentions* survey by The Conference Board Inc. reported U.S. vacation intentions in August of 2002 continued to decline compared with a year earlier. While April results were 1.5 per cent lower, August 2002 registered a 4 per cent dip compared with last August. The survey indicates that over the next six months, 42 per cent of Americans intend to take a vacation somewhere.

The survey also revealed that the percentage of Americans that intend to travel outside the U.S. reversed a declining foreign travel trend—good news for Canada. Planned foreign travel is up 0.3 per cent from the same period a year ago. Still, domestic travel remains the most popular as 35.1 per cent of respondents reported that they intend to take a vacation within the U.S. in the next six months compared with 9.1 per cent who plan to take a foreign trip.

VACATION INTENTIONS (SEASONALLY ADJUSTED)

(%)	APRIL 2002	JUNE 2002	AUG. 2002
Vacation Intended	44.7	44.5	42.0
U.S.	38.7	38.7	35.1
Foreign	7.8	7.3	9.1

Source: The Consumer Research Center, The Conference Board Inc. U.S.

U.S.-to-Canada Air Capacity, OAG Worldwide

Because the ability to get to a destination is an integral part of planning and taking a trip, the level of air service offered between the U.S. and Canada was studied. To accomplish this task, a product from OAG Worldwide called OAG Max—which shows flights worldwide—was used. Air access issues are critical, as growth in the international travel market to Canada is highly dependent on improved air access.

**SEATS AVAILABLE FOR TRAVEL FROM
THE U.S. TO CANADA
(Q1 –JANUARY TO MARCH)**

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	3,563,745	3,781,749
Per cent change	N/A	6.1

Source: OAG Worldwide.

The number of seats available (as of September 2002) for direct U.S. to Canada air travel during the first quarter of 2003 is 3,781,749. For 2002, direct air capacity was 3,563,745 seats. Thus, direct air capacity is up 6.1 per cent.

Summary Outlook for Q1 2003

In the past year, U.S. travellers have changed their travel concerns nearly full circle. According to a recent survey by Travelocity, it is worries about debt and job loss that most affect a decision regarding travel. This is in contrast to the more immediate post-September 11th concerns of security and travel inconveniences. Fortunately, it appears that even stock market worries have not dramatically affected travel decisions. In fact, despite the ongoing declines in the stock market, more than 90 per cent of non-investing and investing American adults who planned to take a trip between August and December 2002 still intend to do so.

Business travel to Canada should grow by 2 per cent in the first quarter of 2003. Meanwhile, *BO Monitor* participants were more positive for U.S. group leisure travel to Canada (+3.5%) and independent FIT leisure travel (+ 2.5%).

On a side note, NFO Plog Research found that among U.S. leisure travellers, nearby and English-speaking locations earned the highest ratings on perceptions of safety for various domestic and international destinations. Within the context of potentially further military action in the short-term, these findings would seem to bode well for U.S. travel to Canada.

Mexico Travel Outlook, Q1 2003

Economic Overview

Mexico's economy is out of recession and in the midst of recovery. The expansion, however, is based mainly on the early summer rebound that took place in U.S. manufacturing activity in the industrial Midwest and the South. Exports have experienced stronger growth this year although a broader recovery in the economy remains fairly tenuous at this point in time. Real GDP is expected to grow by 1.6 per cent in 2002. While this may be considered sluggish growth it represents an improvement from the 2001 recession. We expect GDP to grow by 4.2 per cent in 2003.

In assessing the prospects for the Mexican economy there are both positive and negative factors to consider. On the plus side, the manufacturing inventory drawdown in the United States has reached its bottom and the subsequent turn in inventory investment will stimulate Mexico's Maquiladora factories. Also, high oil prices are holding firm in international markets despite the tepid recovery in worldwide manufacturing activity. They may climb even higher in the event of a military showdown in the Middle East. On the downside, a stall in the U.S. recovery and a longer period of inventory disinvestment would harm Mexico's exports, as would a sudden crash in U.S. auto sales. In any case, Mexico has no choice but to ride the prevailing economic winds in the United States with a rather limited ability to chart its own path.

Tourism Trends

Mexican airport operator Grupo Aeroportuario del Sureste (ASUR) reported that passenger traffic in Mexican airports increased 0.8 per cent compared with a year earlier. Cancun airport reported the best overall—up 5 per cent—performance of the 9 airports ASUR manages.

AeroMexico announced in August that it ordered 15 new Boeing 737-700s to be delivered in August 2003. The airline plans to add one new plane to the airline's fleet every two months after the initial delivery. Its current DC-9s will be phased out as the planes are delivered. Airline Mexicana announced it secured US\$ 14.9 million (CDN \$23.6 million) loan from the government to cover higher insurance premiums. It was also successful at negotiating a wage increase agreement with its flight attendants.

Market Overview

The consensus among Mexican tour operators surveyed suggests that overall bookings to Canada for the first quarter of 2003 will be up by 17 *per cent* compared to a year ago. Tour operators once again identified air capacity to Canada as a problem. Fortunately, exchange rates were stated as having a positive influence to visit Canada.

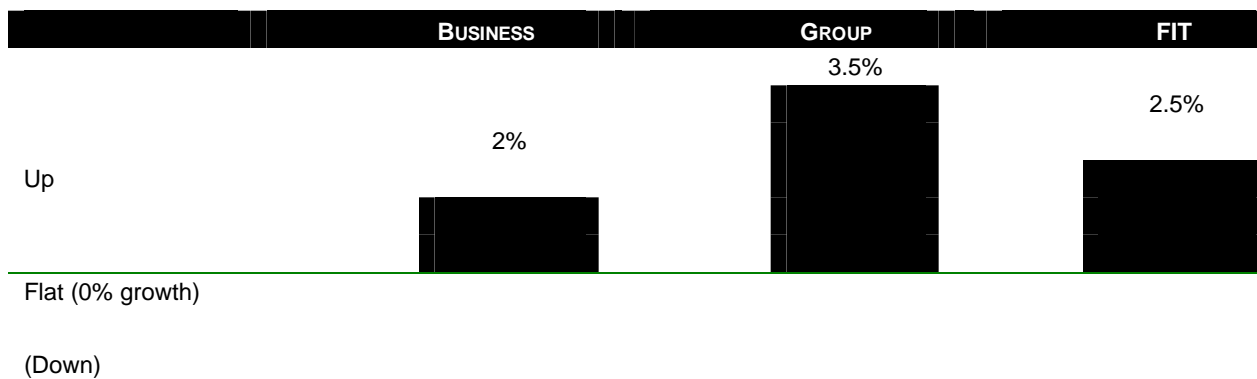
Package tours to Canada are selling well. Both group packages as well couple packages showed strength. Interest was focused on Quebec (+35%), B.C. and Ontario (+28% each) as well as Alberta (+8%). This is a switch from the fourth quarter of 2002 BO which saw B.C. as the leading region but similar to results for the summer 2002 BO. For the first quarter of 2003, the touring product cluster is expected to be the number one product for packages purchased followed by winter, cities and resorts, outdoor/sports and nature. (Canadian Tourism Commission foreign offices)

Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for Mexican travel in the first quarter indicates an overall 2.5 per cent gain. Expectations are for a 2.0 per cent rise in group travel and a 4.0 per cent increase in independent (FIT) leisure travel. Business travel for the first quarter should increase by 1.0 per cent.

Regions that can expect more Mexican visitors include Ontario/Quebec (+ 3.0%), Albert/British Columbia (+ 2.0%) and Atlantic Canada (+ 1.5%) compared with the first quarter of 2002. Mexican visitors to Manitoba/Saskatchewan are expected to remain flat.

MEXICO LEISURE TRAVEL Q1 2003 EXPECTATIONS FOR MEXICO Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH Q1 LAST YEAR.



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

Mexico-to-Canada Air Capacity, OAG Worldwide

Air capacity could represent a problem over the first quarter. While air capacity has been rising through the end of 2002, it should drop 6.4 per cent in the first quarter of 2003. Foreign tour operators have recognized air capacity as a constraint in the past.

SEATS AVAILABLE FOR DIRECT TRAVEL FROM MEXICO TO CANADA (Q1)

	2002	2003
Seats available	79,006	73,938
Per cent change	NA	-6.4

Source: OAG Worldwide.

Summary Outlook for Q1 2003

The Canadian Tourism Commission (CTC) foreign offices in Mexico are reporting that the U.S. remains a competitor to Canada. Mexicans generally think of the U.S. as their first foreign destination for a vacation. However, Mexican tour operators report that the percentage of Mexican visitors to Canada, as part of a package or individually, have increased significantly this year even though visitor numbers are not higher than last year—a result attributed to the general worldwide economic situation.

While air travel volumes are up throughout Mexico, air capacity constraints will hinder growth of Mexican travel to Canada. The appreciation of the peso versus the Canadian dollar will help to add an expected 2.5 per cent gain in visits over the first quarter. FIT leisure bookings are showing the strongest gains (+ 4%) as is Ontario/Quebec among regions in Canada (+ 3.0%). The good news is all segments: FIT, group leisure, and business, are expected to grow as should all regions in Canada—though Manitoba/Saskatchewan is expected to be flat. Helping drive the growth in expected Mexican arrivals is a recovering Mexican economy.

Brazil Travel Outlook, Q1 2003

Economic Overview

Brazil's large current account deficit has exposed the economy to potentially disruptive adjustments arising from shifts in risk aversion in the region. As a requirement to receive International Monetary Fund (IMF) aid, the government was committed to reduce its budget deficit, which is the main factor behind the huge current account deficit. The October presidential election has jeopardized the progress that was achieved in reducing the deficit at the beginning of this year. The polls show that left-leaning candidate Luiz da Silva is leading and he has advocated expansionary fiscal and monetary policies to fight poverty. These policies would undermine IMF budget targets, undo progress on inflation and worsen the current account deficit.

Uncertainty over the outcome of the election has caused the real to depreciate this year and this has caused interest rates to increase. Real GDP is expected to expand by less than 2 per cent in 2002. Next year, real growth of more than 3 per cent is anticipated. Most observers expect that, if da Silva wins the election, the dire economic situation will force him to backtrack on some of his promises. Lower interest rates and a more stable currency will hopefully enable the economy to rebound.

Tourism Trends

According to the Tourism Industry Association of America (TIA), Embratur, Brazil's national tourism marketing agency, signed a cooperation agreement with the Mexican Tourism Agency. TIA also reports that Brazilians tend to be choosing European destinations over the United States this year. The trend is in part attributed to the devaluation of the real against the U.S. dollar and some residual fear from the terrorist attacks last year.

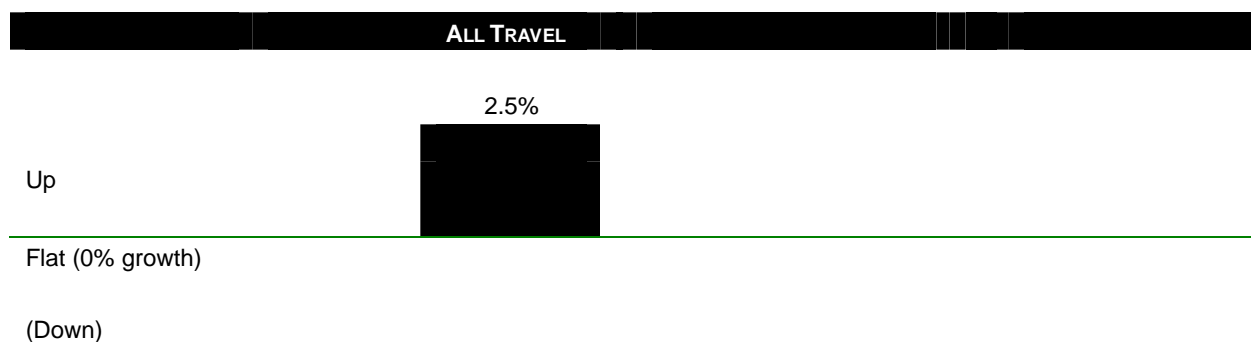
TIA also reports that the Brazilian tour operator industry is collaborating amongst itself, in an effort to reduce costs and promote marketing activities. In the past year, the industry has gone through dramatic changes with many companies going bankrupt.

The Brazilian government announced tax and debt relief measures which will save Brazilian airlines US \$300 million (CDN \$474 million). Brazil's flagship airline Varig will receive the majority of the aid. In return for the aid, the government is pressing for major overhauls of the Brazilian airline sector. Both Varig and TAM posted large losses for the first half of 2002 compared with a year earlier. Sluggish growth of Brazil's economy is not helping their recovery efforts either.

Destination Supplier–Receptive Agent Monitor, Business Outlook

The business outlook—as indicated by Canadian travel supplier and receptive agent bookings—for Brazil travel during the first quarter of 2003 suggests a modest 2 to 3 per cent increase, compared to last year. Unfortunately, there were not enough responses to break down bookings by segment to ensure confidentiality.

BRAZIL LEISURE TRAVEL Q1 2003
EXPECTATIONS FOR BRAZIL Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH THE SAME PERIOD
LAST YEAR.



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

Brazil to Canada Air Capacity, OAG Worldwide

Once again, air capacity is expected to increase and should not cause concern over the first quarter. The number of direct seats available should rise 16.4 per cent compared with last year.

SEATS AVAILABLE FOR DIRECT TRAVEL FROM BRAZIL TO CANADA (Q1)

	2002	2003
Seats available	14,204	16,536
Per cent change	NA	16.4

Source: OAG Worldwide.

Summary Outlook for Q1 2003

Brazil's economy is in a very uncertain state. Targets set by the IMF (International Monetary Fund) to reduce Brazil's deficit are being jeopardized by the presidential election. In order to return the economy to stability, lower interest rates and a more stable currency are necessary. The economic situation has affected both inbound and outbound tourism. In the past year, many Brazilian tour operators have gone bankrupt—those who've survived have done so by merging and growing. Brazilian airlines are also suffering and have turned to the cash-strapped government for tax and debt relief.

But some Brazilians are still travelling. Overall tourism growth to Canada is expected to be limited to 2.5 per cent over the first quarter of 2003.

U.K. Travel Outlook, Q1 2003

Economic Overview

The U.K. economy has many of the same characteristics of the U.S. economy, although it remains in much better shape. Consumer spending remains robust due to solid gains in real wages. The housing market has been booming as a result of very low mortgage rates. On the other hand, the manufacturing sector is in a slump and industrial production is expected to drop by more than 3 per cent this year. Manufacturing has been hurt by the strength of the pound against the euro as well as weak global economic conditions, which have cut into export sales. Real GDP is expected to grow by only 1.6 per cent this year.

In 2003, real GDP growth will pick up in line with a rebound in growth in the United States, the U.K.'s largest trading partner. Monetary policy in the United Kingdom will remain accommodative and this factor should support consumer spending in 2003. The Bank of England would prefer to keep interest rates at current levels and let a slow recovery in the economy take hold. However, monetary authorities may be forced to cut rates as a result of external factors, namely the stability of the global financial system. The risks to cutting rates is that such a move may only support already sky high housing prices and do little to help the sagging manufacturing sector of the economy. The Bank of England does not have to worry about inflation in the economy given that the prices of traded goods have been declining for most of this year. Retail prices are expected to increase by 2.1 per cent this year and 2.3 per cent in 2003.

Tourism Trends

According to the Association of Independent Tour Operators (AIT), the package holiday market faces bankruptcies and consolidations due to an over-capacity of holidays this past summer. Price conscious consumers have had their pick of budget holidays due in part to the massive growth of low-cost airlines. Low-cost carriers are succeeding as passenger numbers continue to grow. With the merger of GO and easyJet underway, easyJet became Europe's largest low cost carrier. The integration is expected to take 18 months.

The leisure-travel sector would see more activity in the U.K. if not for the fact that 44 per cent of U.K. workers simply don't take their full holiday entitlements because of their workloads. The U.K. also has the fewest number of statutory holidays in Europe. The English Tourism Council reported that domestic tourism is gaining in popularity. Between January and May of this year, 15 per cent more British residents took tourism trips in England compared with the same period a year earlier.

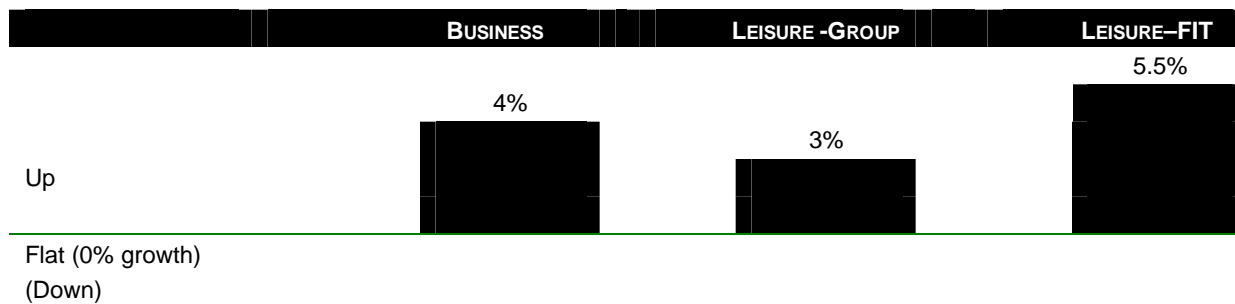
According to the CTC, the Ski & Snowboard Industry Report stated the number of British skiers travelling abroad increased by 3.6 per cent last year to 954,000. Air Canada is expected to increase capacity on key ski routes for the upcoming winter season. It was also reported by the CTC foreign offices that the Australian Tourism Commission plans to launch major marketing campaigns to attract higher-spending U.K. visitors, in particular affluent couples and empty-nesters in 2003.

Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for the U.K. leisure travel market in the first quarter indicate an overall 4.8 per cent increase compared to last year. The outlook for group leisure travel shows an increase of 3 per cent while the independent (FIT) leisure travel segment is expected to grow the most (+5.5%). Traffic by U.K. visitors to Ontario/Quebec will increase more than any other region in Canada (+ 5.5%). Alberta/British Columbia should experience a 4.5 per cent gain, followed by Atlantic Canada (+ 4%) and Manitoba/Saskatchewan (+ 2%).

U.K. TRAVEL Q1 2003

EXPECTATIONS FOR U.K. Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH LAST YEAR.



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

U.K.-to-Canada Air Capacity, OAG Worldwide

While air capacity is expected to grow more moderately in the first quarter of 2003, it should not represent a problem for travellers from the U.K.. OAG Worldwide indicates that direct air capacity planned for the first quarter will rise by 3.5 per cent.

SEATS AVAILABLE FOR DIRECT TRAVEL FROM THE U.K TO CANADA (Q1)

	2002	2003
Seats available	327,104	338,504
Per cent change	NA	3.5

Source: OAG Worldwide.

Summary Outlook for Q1 2003

The U.K. economy remains in better shape than the U.S. and consumer spending remains robust due to solid gains in real wages. Price conscious consumers had their pick of packages during the summer in part due to the massive growth of low-cost airlines. It is not expected that this trend will disappear in the short-term.

According to the CTC, interest in ski packages to Canada during the first quarter is good. A slight increase in air capacity during this period should help increase the number of visitors from the U.K. Overall, we expect the number of visits to rise during the first quarter by 4.8 per cent. Travel to Ontario/Quebec should post stronger growth (+5.5%) versus travel to other regions of Canada.

While business travel from the U.K. is expected to lag leisure travel it should still expand by 4 per cent compared to the first quarter of 2002.

France Travel Outlook, Q1 2003

Economic Overview

This year, the French economy has been plagued by the same factors that have affected almost every country in Europe, namely weak consumer and business confidence as well as declining investment spending. Consumer confidence fell to a three-month low over the summer and the tumbling stock market cut into household wealth. Recent declines in the euro and business confidence suggest that businesses are unlikely to accelerate their spending or hiring in the near future. Business investment spending is not growing at all and the unemployment rate remains stuck at close to 9 per cent. Real GDP growth is forecast to grow by 1.2 per cent in 2002, close to the continent-wide average.

The hope is that a rebound in economic growth in France's two most important export markets, Germany and the United Kingdom will lead to faster growth in exports and industrial production next year. Industrial production is expected to expand by close to 2.5 per cent next year in the wake of a negligible 0.2 per cent gain in 2002. Overall real GDP will increase by 2.4 per cent in 2003.

Travel Trends

According to Air France, net income for the second quarter was down 18.5 per cent compared with the same period a year earlier. Furthermore, the airline plans to continue its plans to privatize and will risk confrontations with its unions. A strike by its pilots in August is estimated to have cost the airline EUR68 million (CDN\$ 104 million) because of the disruption of flights.

The French Tourism Board reported that visitors from the U.K. will be the saviors of French tourism this year as travellers from the U.S. and Japan increasingly stay at home. France is expecting a record setting 13 million British visitors this year, an increase of as much as 10 per cent.

Market Overview

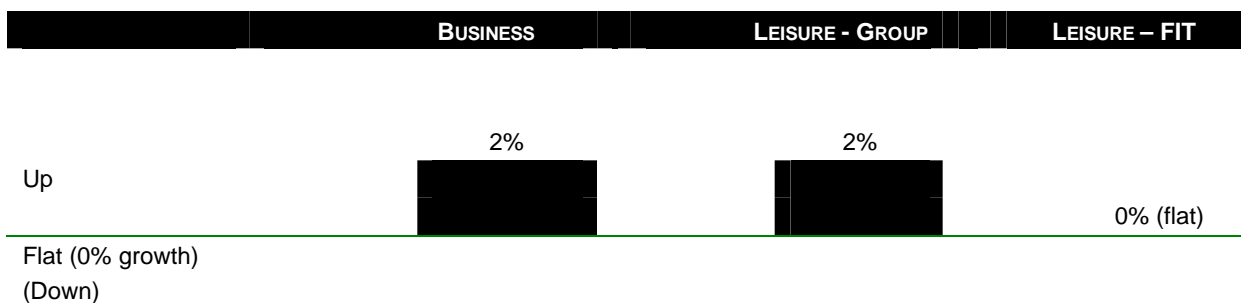
The consensus among French tour operators surveyed suggests that overall bookings to Canada, for the first quarter of 2003, will be marginally higher than last year. Only one operator indicated that sales will increase by 15 per cent. Air capacity to Canada was identified as a problem by about half the tour operators. The appreciation of the euro versus the Canadian dollar was cited as attracting more French tourists.

Specific trends identified as selling well were group package tours and individuals without a package. Interest was focused on Quebec (80%), Western Canada and Ontario (10% each). For the first quarter, the winter outdoor/sports product cluster is expected to be the number one product cluster for packages purchased followed by winter touring. (Canadian Tourism Commission foreign offices)

Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for French travel to Canada for the first quarter of 2003 indicates that there will be an overall 1.1 per cent increase compared to last year. The outlook is less positive for independent (FIT) travel (flat). Both business and group leisure travel are expected to fare slightly better with each experiencing 2 per cent growth. The growth of French travellers during the first quarter of 2003 is expected to be strongest for Alberta/British Columbia (+2%). Meanwhile, travel to Ontario is expected to increase 1 per cent while travel to Manitoba/Saskatchewan is expected to be flat. *BO Monitor* participants expect a slight 1 per cent decline in French travel to Atlantic Canada.

FRANCE TRAVEL Q1 2003 EXPECTATIONS FOR FRANCE Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH Q1 LAST YEAR.



Source: *Q1 2003 Business Outlook System, Canadian Tourism Research Institute.*

France-to-Canada Air Capacity, OAG Worldwide

Direct air capacity for the first quarter should be stable compared to 2002. Meager increases over the last 18 months have not yet addressed the capacity constraints from France.

SEATS AVAILABLE FOR DIRECT TRAVEL FROM FRANCE TO CANADA (Q1)

	2002	2003
Seats available	118,505	119,710
Per cent change	NA	1.0

Source: *OAG Worldwide.*

Summary Outlook for Q1 2003

Weaker consumer and business confidence, coupled with limited air capacity growth to Canada, will restrain the growth of French visits. In the past, French tour operators have identified air capacity as a problem. The expected 1 per cent gain in the first quarter is not expected to alter the situation much or allow for substantial expansion. The number of both group leisure and business travellers from France should increase by 2 per cent in the first quarter.

Germany Travel Outlook, Q1 2003

Economic Overview

The poor state of the German economy did not stop voters from re-electing the incumbent Chancellor Gerhard Schroeder of the SPD party, albeit by the narrowest of margins. This year the economy has been hit by declining confidence among German businesses, poor labour market conditions and a weak global recovery that has hurt both domestic and foreign demand for German goods. The floods in August further disrupted the economy. This year, the economy will be fortunate to record real GDP growth of 0.5 per cent. Next year, growth will rebound (real GDP growth of 1.9 per cent) due to a brighter outlook for exports, industrial production and investment spending.

The unemployment rate is expected to remain close to 10 per cent in the near-term. Most observers consider the re-election of Schroeder as a negative step in the long sought after reforms to German's labour market. It is true that the SPD party supports the Hartz commission's proposals to slash the country's four million jobless total. These measures include creating job centers and cutting welfare if a job is refused without just cause. However, the government is unlikely to tackle the root of Germany's labour market woes – the collective bargaining system and job security.

Tourism Trends

According to FT Deutschland, with the launch of Air Berlin as a low cost carrier, there are now seven low cost carriers with a German hub. In August, Lufthansa raised its 2002 operating profit forecast by 25 per cent in response to better-than-expected economic conditions. Lufthansa now expects to make EUR500 million (CDN\$ 763 million), up from EUR400 million (CDN\$ 610 million). As a result, it has placed an order for 10 new aircraft.

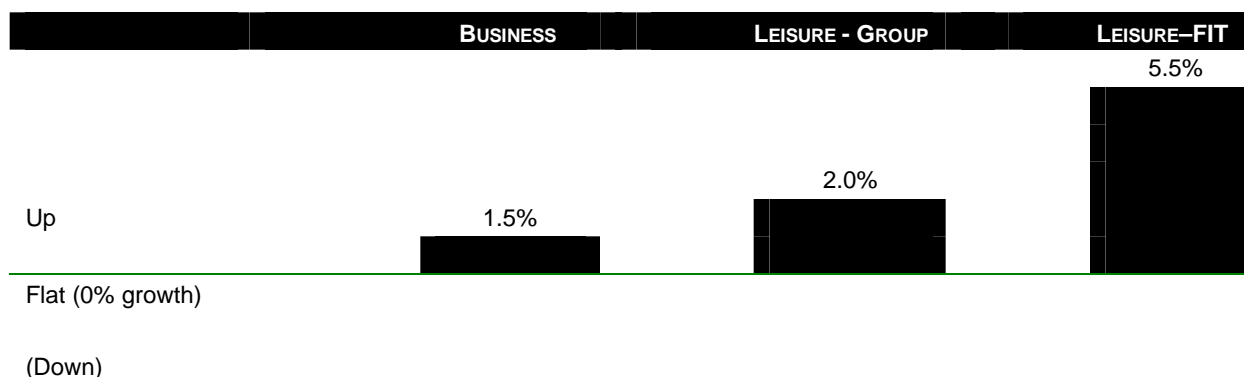
The Rewe Touristik charter holiday brands have unveiled price cuts of up to 22 per cent for their Winter 2002–03 package holidays compared with last winter. While the three Rewe Touristik brands have suffered losses of nearly 12 per cent in sales for the nine months ended July 31, 2002, the price cuts are expected to result in growth of at least 6 per cent for the winter season.

FVW International, a German travel trade publication, reported that German leisure travellers want more flexible holidays that can be customized. Europe's largest tour operator, TUI, announced that the traditional twice annual holiday will gradually disappear and time-to-market will be more important. This serves those who are booking late well. At a German tourism conference in September, the "big two" German tour operators: TUI and Thomas Cook, announced that last minute bookings reached 30 per cent for this year.

Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook—as indicated by *BO Monitor* participants—for German travel to Canada in the first quarter is positive. Overall travel is expected to see 3.9 per cent growth. German independent (FIT) travel is expected to post the biggest gain (+5.5 per cent) while group leisure travel should expand by 2 per cent. The outlook for business travel is up 1.5 per cent. Alberta/BC is expected to increase 4.5 per cent while Ontario/Quebec will see slightly less than that, growing 4.0 per cent. Atlantic Canada and Manitoba/Saskatchewan, while less robust, will still experience healthy growth (+3.0% and 2.5% respectively).

GERMANY LEISURE TRAVEL Q1 2003
EXPECTATIONS FOR GERMANY Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH SAME PERIOD
LAST YEAR.



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

Germany-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Germany should increase 32 per cent in the first quarter of 2003, versus its level in the first quarter of 2002.

SEATS AVAILABLE FOR DIRECT TRAVEL FROM THE GERMANY TO CANADA (Q1)

	2002	2003
Seats available	118,560	156,484
Per cent change	NA	32.0

Source: OAG Worldwide.

Summary Outlook for Q1 2003

Travel to Canada is expected to post the highest growth rate among all countries surveyed for our short-term outlook. Major expansion is planned in direct air capacity from Canada over the first few months of 2003. In the past, air capacity has been identified as a constraint to growth for tourism in Canada. These significant gains are welcomed. The increasing capacity will primarily benefit the FIT. Those Germans that will rely on package travel will increasingly look for non-traditional packages that allow them to book late and make significant changes to their itinerary.

Italy Travel Outlook, Q1 2003

Economic Overview

Italy's economy has averaged 1.5 per cent growth annually over the past 10 years (and 2 per cent over the last five). Looking forward, the government will introduce tax cuts on low and middle-income tax brackets as well as corporations. This should improve both consumption as well as business investment. We expect that the Italian economy will grow by just 1 per cent this year and then by a healthier 2.5 per cent in 2003. A risk in the forecast is that Italy's export-led economy may be harder hit than most by the recent appreciation of the euro.

Tourism Trends

ENIT, Italy's tourism board, announced in August that the number of tourist arrivals this year are expected to be below 2001 levels due to weak economies and terrorist threats. In the first five months of this year, revenue from visitors fell 11 per cent compared with the same period a year ago. Alitalia announced reduced losses in the first six months of this year compared with the same period a year earlier.

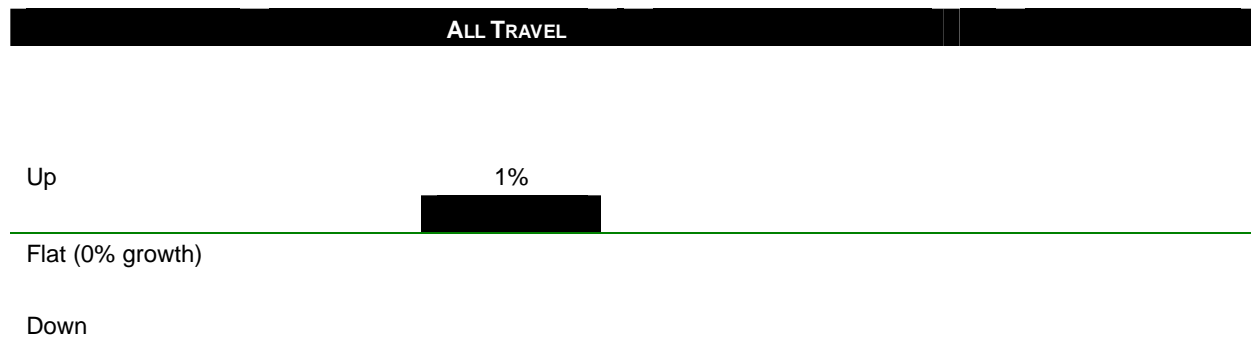
According to the Association of Italian Tour Operators (ASTOI) major long haul destinations for Italians this summer were: the Far East, Australia, Indian Ocean and South Africa. Most bookings, including those to Canada, were last minute and final results ending up being more or less the same as summer 2001.

According to the CTC, tour operators' sales of US products are down for the winter season between 30 and 50 per cent compared to the already tough season of 2001. In interviews with some tour operators, Canada was chosen as a good alternative to the US. Brochures including Canada will be available in October and will focus on city stays, shopping, snowmobiling and ski packages.

Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for overall travel from Italy during the first quarter is for a 1.0 per cent rise compared to last year. Unfortunately, not enough responses were obtained to break down travel segments to ensure confidentiality.

**ITALY LEISURE TRAVEL Q1 2003
EXPECTATIONS FOR ITALY Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH SAME PERIOD LAST
YEAR.**



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

Italy-to-Canada Air Capacity, OAG Worldwide

Air capacity from Italy to Canada should not represent a problem during the first quarter of 2003. Similar to last winter, air capacity is expected to continue to make significant gains. The OAG Worldwide data suggests that the number of direct seats available to Canada will be up 55.7 per cent.

SEATS AVAILABLE FOR DIRECT TRAVEL FROM ITALY TO CANADA (Q1)

	2002	2003
Seats available	22,066	34,356
Per cent change	NA	55.7

Source: OAG Worldwide.

Summary Outlook for Q1 2003

Coverage of the Pope's visit to Toronto in July was excellent. Reports about the improvement in the Pope's health after his visit to Canada was a perfect testimonial for Canada. However the economic situation in Italy will constrain the number of Italian visits to Canada. On top of economic pressures, Canada faces tough competition for Italian visitors from other long haul markets that are favoured by Italians. Still, partly because Canada is viewed as a good alternative to the US and partly because of a massive increase in air capacity, the number of visitors from Italy is expected to rise modestly by 1 per cent in the first quarter compared with the same period last year. As is the trend worldwide, most bookings will be last minute.

Netherlands Outlook, Q1 2003

Economic Overview

The Netherlands is counting on a global economic recovery – especially in Germany – in 2003, as it has one of the most export-oriented economies in the world. Going forward, two challenges face the Dutch economy: relatively poor productivity as well as a rising exchange rate in the euro. Both of these factors will weigh on total output as well as income growth over the forecast. The Netherlands should eke out growth of 1 per cent this year and then double that rate in 2003.

Tourism Trends

KLM is reporting a net profit of EUR11 million (CDN\$ 17 million) for the second quarter. This is down from EUR19 million (CDN\$ 29 million) a year earlier. Nevertheless, the results beat analysts' forecasts. While sales and traffic levels dropped, operating costs were also reduced. According to KLM, revenue management as well as its decision to gradually add capacity allowed the company to post a profit.

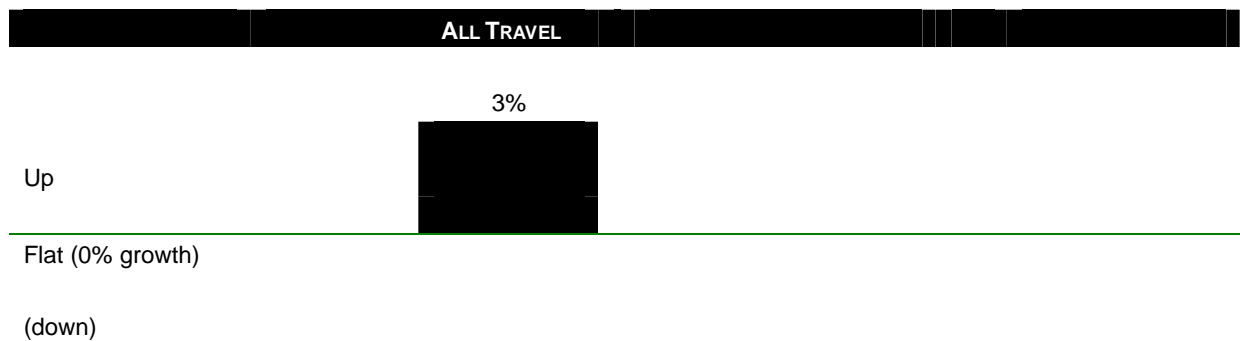
In July, KLM, like other European airlines, reduced fares on European routes by up to 40 per cent. In addition, its service between London Stansted and Amsterdam will become a low-fare operation in October by using KLM's low-fare carrier called Buzz. KLM altered its fare structure in response to a sharp increase in leisure traffic.

According to a survey by ANWB and Royal Dutch Touring Club, Dutch travellers are increasingly looking for comfort and luxury.

Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook for travel for the first quarter of 2003, by *BO Monitor* participants, indicates an overall increase of 3 per cent. Unfortunately there were not enough responses to break down bookings by segments to ensure confidentiality.

**NETHERLANDS LEISURE TRAVEL Q1 2003
EXPECTATIONS FOR NETHERLANDS Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH SAME
PERIOD LAST YEAR.**



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

Netherlands-to-Canada Air Capacity, OAG Worldwide

Air capacity from the Netherlands is expected to improve and should not represent a constraint over the first quarter. These gains are consistent with strong increased capacity expected during the fourth quarter of 2002.

SEATS AVAILABLE FOR DIRECT TRAVEL FROM THE NETHERLANDS TO CANADA (Q1)

	2002	2003
Seats available	60,060	77,610
Per cent change	NA	29.2

Source: OAG Worldwide.

Summary Outlook for Q1 2003

A recent Thomas Cook survey stated that travel intentions of the Dutch people are stable this year compared to last year. In comparison, Germany, Belgium and the UK all registered decreases. CTC foreign offices are reporting that the number of trips booked by the Dutch increased 2 per cent this year.

According to *BO Monitor* participants, Dutch travel to Canada is expected to grow by 3 per cent during the first quarter of 2003 compared to the same period in 2002.

Japan Travel Outlook, Q1 2003

Economic Overview

In the early part of 2002, there were signs that Japan was starting to emerge from the doldrums that have gripped the economy for the past decade or so. First quarter GDP increased at an annualized pace of more than 5 per cent. However, data revisions wiped out the growth and indicated that, in the first half of this year, growth was negligible. Recent data suggest that the problems in the economy created by deflation are still a fact of life in Japan. Producer prices have been declining recently, undermined by a combination of the strong yen and deflation in globally traded prices. Also, corporate service prices have been very weak. In the absence of a strong rebound in global economic activity, Japan's weak economy and strong yen point to building deflationary pressures for the remainder of this year and 2003 as well. Consumer prices are expected to fall by close to 1 per cent this year and again in 2003.

There is a glimmer of hope in Japan since it appears that the government is finally going to do something about the decade-long deterioration in the country's financial system. The Bank of Japan recently announced that it will purchase stock holdings directly from the nation's troubled banks. Japanese banks are one of the largest investors in the stock market. The aim of the policy is to have banks use the proceeds from the central bank's stock purchases to eliminate the huge debt resulting from bad loans built up over the past decade.

Tourism Trends

Japan Airlines (JAL) announced that there will be a decrease in the number of flights, especially local flights, after it integrates operations with Japan Air Systems (JAS) in October. All Nippon Airways stated that it will cut its domestic fares by 10 per cent in anticipation of the merger, triggering what's expected to be a domestic price war. The newly merged JAL has announced that it will match its competitors' decreases.

According to a survey by the Japanese Association of Travel Agents (JATA), overseas package-tour sales are steadily recovering since plunging last fall. In particular, tours to Oceania and China continue to be in great demand. However, Canada and the U.S. continue to lag behind in their recovery.

JATA also stated that more family-package tours are being offered and new types of nature experience packages are available. Finally, consumers continue to book closer to their departure dates.

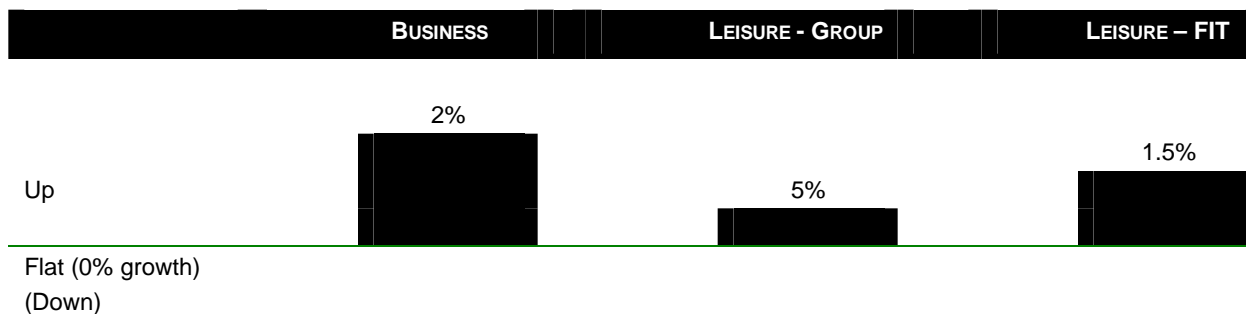
The Travel Industry Association of America (TIA) reported major Japanese wholesalers have experienced rising demand for bookings in September and October. The upswing in bookings is partially attributed to postponement of travel due to the World Cup finals. TIA also announced that JTB Corp will open up a retail outlet catering exclusively to middle-aged and senior travellers.

Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook—as indicated by Canadian travel supplier and receptive agents’ bookings—for Japanese travel for the first quarter of 2003 indicates an overall 1.0 per cent rise. Business bookings will lead growth as they are expected to increase 2.0 per cent. Independent (FIT) leisure travel should rise by 1.5 per cent, while group bookings can only expect to see marginal growth in the short term (+0.5%). The Alberta/B.C regions as well as Ontario/Quebec should see increases in the number of Japanese visitors to their regions. But Atlantic Canada’s outlook is for a decline of 2 per cent.

JAPAN TRAVEL Q1 2003

EXPECTATIONS FOR JAPAN Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH THE SAME PERIOD LAST YEAR.



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

Japan-to-Canada Air Capacity, OAG Worldwide

Overall direct air capacity should not represent a problem over the first quarter. While the growth in capacity will not be as strong as it was during the fourth quarter of 2002, it is still expected to post solid growth of 12.4 per cent, compared with the first quarter of 2002.

SEATS AVAILABLE FOR DIRECT TRAVEL FROM JAPAN TO CANADA (Q1)

	2002	2003
Seats available	98,619	110,864
Per cent change	NA	12.4

Source: OAG Worldwide.

Summary Outlook for Q1

The dour economic situation continues in Japan. Deflation is a concern and economic worries feature high on consumers’ lists. While package tour sales are starting to show signs of growth, sales to Canada and the U.S. continue to lag behind. The hope is that middle-aged and older Japanese people continue to be active travellers. While a survey by the *Travel Journal International* reported travel demand by younger consumers is down, the senior’s market, especially men in their late 50’s, is increasing and rebounding. Air capacity for those choosing Canadian holidays should not represent a problem as 12 per cent more seats are expected to be available during the first quarter.

BO Monitor participants suggest travel to Canada for the first quarter of 2003 will rise by 1 per cent compared with 2002. Alberta/BC is the region that can expect to see most of this growth.

Taiwan Outlook, Q1 2003

Economic Overview

The Taiwanese economy continues to fare well. Strong export growth to its Asian neighbours such as; China and Hong Kong as well as the U.S. have helped create an excellent backdrop for stalwart consumption gains. Following a recession in 2001 the economy should grow by over 3 per cent in 2002 and by nearly 4 per cent in 2003.

Tourism Trends

Air Canada, and Qantas, have both announced that they are reducing the number of flights they operate over the winter to Taiwan as the routes are not profitable. Passengers booked on flights after October will be offered flights on EVA Airways.

EVA Airways announced that sales increased 21 per cent in June compared with a year earlier to TWD\$ 5.56 billion (CDN\$ 260 million), the highest this year. Taiwan's largest carrier, China Airlines, announced that its June sales fell 10.5 per cent compared with the same month a year ago, the largest monthly decline this year.

The Australian Tourism Commission reported survey results showing that while Taiwan residents traditionally choose package tours, partially packaged and individual travel is gaining in popularity. In addition, destination competition focuses on price rather than product or package differences. Challenges for long-haul travel, including Canada, will emerge from the popularity of short-break mono-destination travel.

Premier Yu Shyi-Kun announced a six year national development plan which includes tourism as one of the 10 major areas for promotion. The goal is to double the number of international tourists during this period. However, identified obstacles include lack of familiarity with Taiwan, especially among North Americans, dedication of the tourism marketing budget to Japan (half the budget is allocated to Japan), transportation costs to Taiwan, lodging costs in Taiwan, and lack of English information about Taiwan.

According to a survey by ACNielsen, after email and news, travel information and on-line booking are the most sought after on-line services for regular Internet users in Taiwan.

Market Overview

The decline in air capacity, due to Air Canada's suspension of winter service, will contribute to a decline in travel. While fall foliage and salmon spawning/watching were selling well for the autumn, the outlook for the first quarter (specifically for ski and non-ski winter products) is uncertain until alternative carriers emerge. (Canadian Tourism Commission foreign offices)

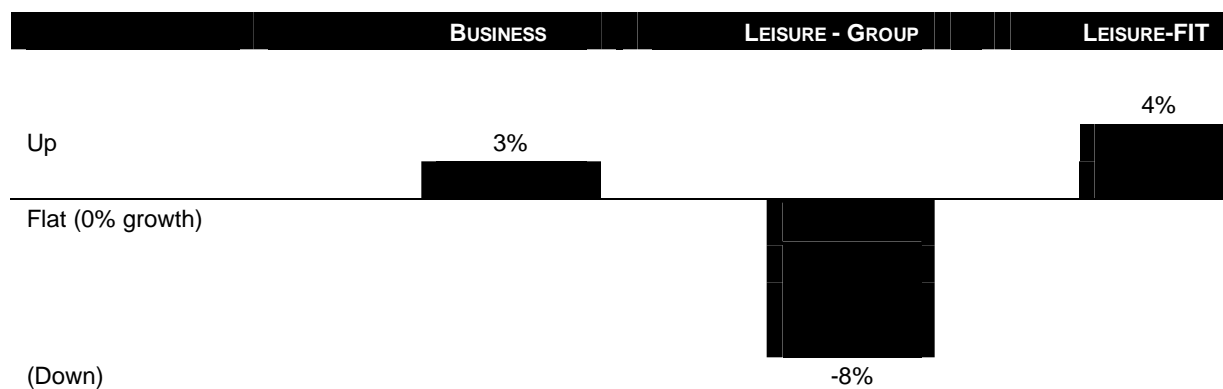
Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for Taiwan travel in the first quarter of 2003 indicates an overall 5 per cent decline, compared to last year. While *BO Monitor* respondents were slightly more optimistic regarding expectations for independent (FIT) leisure travel (+ 4%) and business bookings (+ 3%), it is group bookings that are dragging the outlook down. Group travel is expected to drop 8 per cent in the first quarter versus last year.

The overall increase for Taiwanese travel is expected to be slightly worse for Alberta/B.C (-6%) compared with Ontario/Quebec (-4%).

TAIWAN LEISURE TRAVEL Q1 2003

EXPECTATIONS FOR TAIWAN Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH THE SAME PERIOD LAST YEAR.



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

Taiwan-to-Canada Air Capacity, OAG Worldwide

Air capacity is expected to fall 5.9 per cent in the first quarter of 2003 compared with a year earlier. This drop continues the capacity reduction trend seen last winter. Contributing to the capacity decrease was Air Canada's announcement that they were reducing or even eliminating flights that they operate to Taiwan over the winter season.

SEATS AVAILABLE FOR DIRECT TRAVEL FROM TAIWAN TO CANADA (Q1)

	2002	2003
Seats available	54,368	51,138
Per cent change	NA	-5.9

Source: OAG Worldwide.

Summary Outlook for Q1 2003

Cuts to air capacity will result in approximately 6 per cent fewer seats coming to Canada during the first quarter compared with a year earlier. Flight reductions could pose a larger than usual problem, as such, monitor participants have suggested visits from Taiwan could fall by 5 per cent. Group leisure visits are likely to be affected the most.

South Korea Travel Outlook, Q1 2003

Economic Overview

The South Korean economy is doing well. Following stellar 6 per cent plus growth in 2002, GDP should increase by nearly 6 per cent again in 2003. Income growth is strong, consumption is strong, and so too is investment. As one-fifth of the South Korean exports go the U.S. a forecast risk is that the American recovery is less than robust.

Travel Trends

Korean Air reported significant gains in the first half of 2002 as total operating revenue increased 7 per cent while operating expenses decreased 1.4 per cent compared over the same period a year ago. The gains are the result of better passenger and cargo numbers, better exchange rates, stabilized fuel prices and the company's efforts to focus on high yield routes such as China, Japan and Southeast Asia.

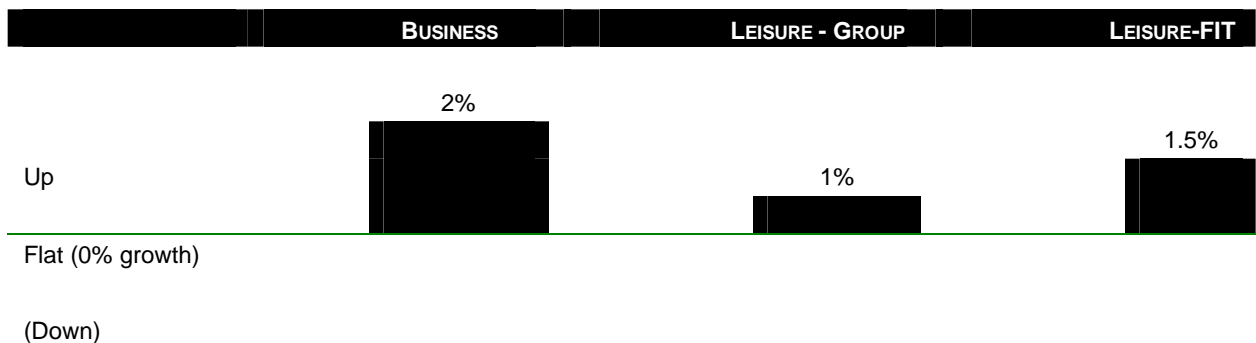
The Australian Tourism Commission reported survey results showing that Korean consumers' purchasing decisions for tourism products are largely driven by price. Tourism products are differentiated on price rather than product inclusions.

South Korea is starting to emerge as a serious competitor to Hong Kong as China's most important gateway for air travellers. According to June traffic statistics from Korean Airlines, capacity to China increased a substantial 66 per cent compared with a year earlier. Passenger numbers increased 33 per cent during the same period. Students travelling to and from North America and China via Seoul is a particularly strong market.

Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for South Korean travel in the first quarter of 2003 is for a 1.5 per cent increase compared to last year. The outlook for business travel is slightly better than for independent (FIT) or group leisure travel (+2% compared to +1.5% and +1% respectively). Visits to the Ontario/Quebec region will increase 2 per cent while visits to Alberta/B.C. should rise by 1 per cent.

SOUTH KOREA LEISURE TRAVEL Q1 2003
EXPECTATIONS FOR SOUTH KOREAN Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH THE SAME PERIOD LAST YEAR.



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

South Korea-to-Canada Air Capacity, OAG Worldwide

Air capacity is a not a major concern for travel to Canada over the first three months of 2003. OAG data suggests that 2 per cent more seats will be available for direct travel to Canada, compared with the same period in 2002.

SEATS AVAILABLE FOR DIRECT TRAVEL FROM SOUTH KOREA TO CANADA (Q1)

	2002	2003
Seats available	50,270	51,261
Per cent change	NA	2.0

Source: OAG Worldwide.

Summary Outlook for Q1 2003

The South Korean economy is doing well. Following stellar 6 per cent plus growth in 2002, GDP should increase by nearly 6 per cent again in 2003. The tourism outlook is also encouraging – up 1.5% compared with the first quarter of last year. Visits from South Korean business travellers are expected to post a 2 per cent increase, followed by independent (FIT) travellers who expect to register 1.5 per cent growth. Visits to Ontario/Quebec are expected to make up the majority of overall growth. Air capacity should not represent a concern and will increase slightly.

As Koreans are very price conscious regarding tourism destinations—they are more price conscious than product conscious—Canada will have to remain priced competitively in order to increase market share.

Hong Kong Outlook, Q1 2003

Economic Overview

The Hong Kong economy is not what it once was; the model of a fast growing developing economy. According to a recent survey in the Financial Times, unemployment is up from 2.4 per cent in June 1997 to a record 7.4 per cent. In a place where a generation ago, people often had not just one job, but two, this is significant. Property prices are down by 60 per cent and a sizeable percentage of home-owners' properties are worth less than their mortgages. After lackluster economic gains in 2001, GDP growth should pick-up this year and then grow by just over 3 per cent in 2003.

Tourism Trends

A steady recovery in market conditions has allowed Cathay Pacific to bring previously grounded aircraft back into service and, as a result, the airline reported a 6.3 per cent increase in profits for the first six months of 2002 compared with the same period a year earlier. Cathay Pacific also announced it will not challenge an application by its smaller Hong Kong rival Dragonair to fly five routes that would have set the two airlines in direct competition.

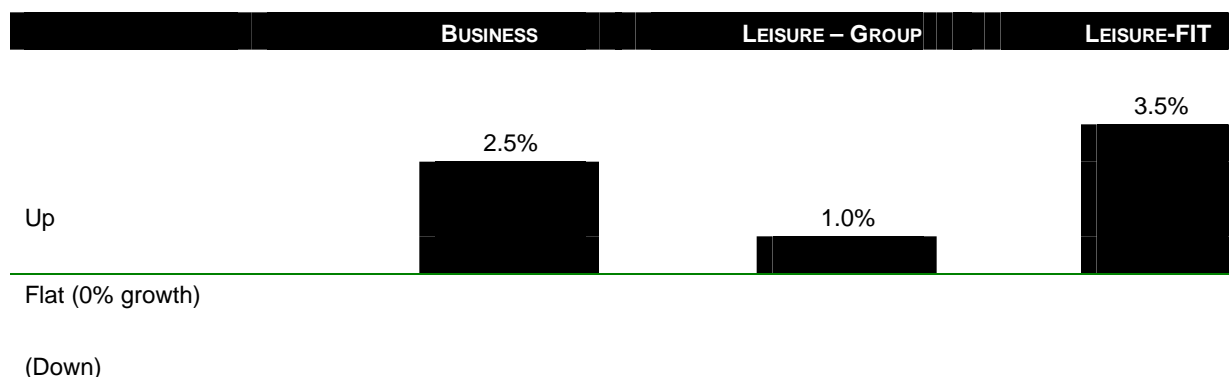
The Australian Tourism Commission (ATC) reported survey results showing that Hong Kong destination competition focuses predominately on price, with some product or package variations. According to the ATC, it is expected that shorter duration, mono-destination travel will increase, at the expense of total outbound travel to long-haul destinations.

Hong Kong outbound tour operators have registered a 6 per cent decline for the first six months of this year compared with a year earlier and sales to mainland China residents would boost results. As a result of the sales decline, operators have cut outbound package-tour prices by an average of 20 per cent since the beginning of the year.

Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook for Hong Kong leisure travel to Canada—as reported by *BO Monitor* participants—is for growth of 2.5 per cent in overall travel. A 2.5 per cent increase is what is expected for both overall leisure travel and business travel as well. While on its own group leisure travel is expected to rise 1.0 per cent, independent (FIT) leisure travel should be the strongest of all segments registering 3.5 per cent growth. The overall increase for Hong Kong travel should be slightly better for Ontario/Quebec (+3%) compared with Alberta/B.C (+2.5%).

HONG KONG LEISURE TRAVEL Q1 2003
EXPECTATIONS FOR HONG KONG Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH SAME PERIOD
LAST YEAR.



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

Hong Kong-to-Canada Air Capacity, OAG Worldwide

Air capacity should rise by 3.5 per cent over the first three months of 2003, compared to 2002.

SEATS AVAILABLE FOR DIRECT TRAVEL FROM HONG KONG TO CANADA (Q1)

	2002	2003
Seats available	118,673	113,390
Per cent change	NA	3.5

Source: OAG Worldwide.

Summary Outlook for Q1 2003

The Hong Kong economy is emerging from the woods but still faces many challenges before it can grow substantially. Because of the many economic challenges tour operators are facing as well as an extremely competitive travel agency environment in Hong Kong, some are chopping prices on first quarter travel packages. Indeed, since the beginning of this year, the average package price has fallen by 20 per cent. Long-haul destinations such as Canada could face increasing competition from short-haul destinations as mono-destinations increase in popularity.

Over the first three months of 2003, *BO Monitor* participants expect overall visits from Hong Kong to increase 2.5 per cent. Meanwhile, independent (FIT) leisure travel is expected to post stronger 3.5 per cent growth, compared to the first quarter in 2002.

China Travel Outlook, Q1 2003

Economic Overview

China continues to enjoy some of the strongest economic performance among the world's large economies. Amazingly, the economy continues to hit the government prescribed forecasts of 8 per cent per year. This year and 2003 should be no different. Strong export growth and investment spending continue to support 10 per cent plus growth in retail sales.

Tourism Trends

The China National Tourism Administration (CNTA) reported the number of licensed outbound travel agents throughout China rocketed recently from 67 to 528 representing nearly 800 per cent growth. According to the CNTA, tough measures to control the tourism market in Shaanxi Province were taken during a ten-day period in September. During this time, the province cracked down on illegal tourism companies and tour guides.

The Australian Tourism Commission (ATC) reported survey results showing that Chinese consumers and trade personnel require information in Chinese. Although the popularity of the Internet is expanding, Chinese travellers will still book through an agent—and in fact are required to book through a license agent for many leisure travel destinations.

The Beijing Capital International Airport announced that it will lower the prices of items for sale at the airport starting October 1st. It is expected that the change will result in bringing sky-high prices on food and merchandise down to a reasonable level.

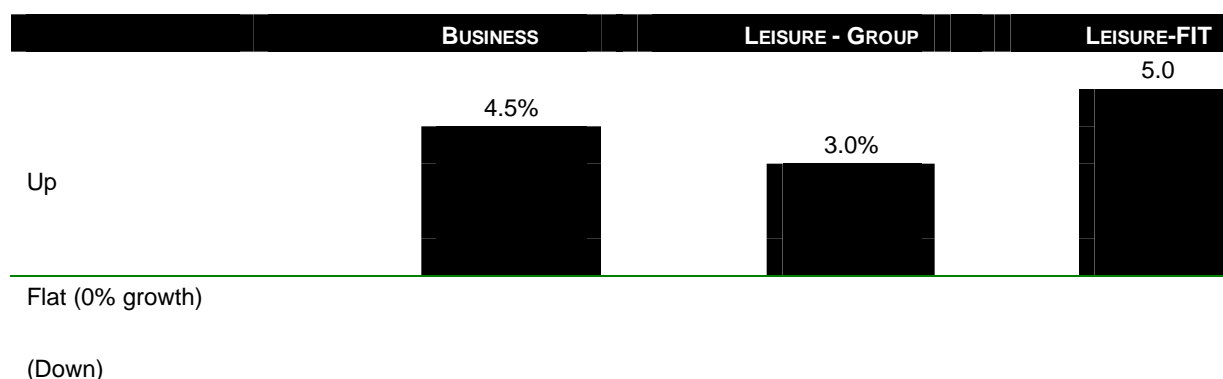
According to the Pacific Asia Travel Association, China is the dominant market within the Northeast Asia group and it should break the 100 million arrivals mark in 2003.

China Southern Airlines reported net profits of 123.2 million yuan (CDN \$23.5 million) for the first half of 2002, down 39 per cent from a year earlier. The drop was mainly attributed to an exchange rate loss. Overall the CNTA reported that China's air industry generated profits of 480 million yuan (CDN \$ 91.6 million) in the first eight months of this year. During this time, passenger traffic rose 11 per cent compared with the same period a year earlier.

Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—for Chinese travel in the first quarter of 2003 is good. Visits should increase by 3.8 per cent, compared with last year. *BO Monitor* participants expect independent (FIT) leisure travel to increase the most (+5%), followed by business travel (+4.5%), and group leisure (+3.0%). It is expected that visits to Ontario/Quebec will be slightly stronger than visits to Alberta/B.C (+4% growth versus +3.5% respectively), compared to 2002.

CHINA LEISURE TRAVEL Q1 2003
EXPECTATIONS FOR CHINA Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH THE SAME PERIOD
LAST YEAR.



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

China to Canada Air Capacity, OAG Worldwide

Air capacity will weigh on overall growth as the number of direct seats available falls by 5.9 per cent. This may offset a capacity increase that is expected to take place in the fourth quarter of 2002.

SEATS AVAILABLE FOR DIRECT TRAVEL FROM CHINA TO CANADA (Q1)

	2002	2003
Seats available	54,368	51,138
Per cent change	NA	-5.9

Source: OAG Worldwide.

Summary Outlook for Q1 2003

China continues to enjoy some of the strongest economic performance among the world's large economies. This year, and 2003, should be no different. Strong export growth and investment spending continue to support 10 per cent plus growth in retail sales. Tourism, both inbound and outbound, is also expected to grow. With the increase in the number of outbound tourism operator licenses, the number of potential visitors from China will increase—though the competition for these visitors will be intense. Being aware that Chinese consumers (and trade personnel) require information in Chinese is one way to gain an edge.

The results from *BO Monitor* participants suggest that travel from China during first quarter of 2003 will increase by nearly 4 per cent, with the FIT leisure travel segment leading the way.

Australia Travel Outlook, Q1 2003

Economic Overview

Solid consumption growth as well as a significant bounce-back in business investment are supporting a healthy Australian economy. GDP growth is expected to come in at just over 3 per cent this year and nearly 4 per cent in 2003. Interest rates are historically low and continue to support strong consumption gains over the forecast.

Tourism Trends

Qantas announced a 3 per cent increase in profits for its year ended June 30, 2002 compared with a year earlier. The recovery was driven by the carrier's domestic services but international traffic showed a vast improvement in the second half of 2001–2002, as well. Qantas plans to raise AUD\$ 800 million (CDN\$ 688) to upgrade its fleet this fiscal year.

The Australian Tourism Commission (ATC) launched a business-tourism advertising campaign—a first for the ATC. The AUD\$ 1 million (CDN\$ 860,000) campaign will promote Australia as a business event destination. The campaign will include television and newspaper advertisements in Asia, the U.K., Europe and the U.S. plus print advertisements in the *Financial Times*, *Business Week* and *The Economist*. There will also be targeted television advertisements on CNBC.

According to the CTC foreign offices, due to the appreciation of the Australian dollar, some tour operators are making price cuts for new bookings to most areas – including Canada. As well, forward bookings for ski products for the 2002/2003 season are strong. Hindering growth is capacity cutbacks by international air carriers.

Market Overview

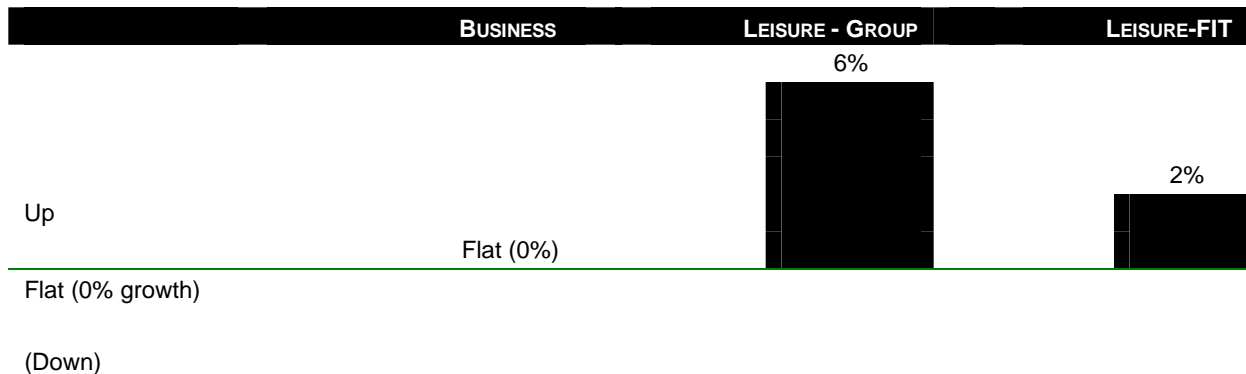
The consensus among Australian tour operators surveyed suggests overall bookings to Canada for the first quarter will be up 10 per cent, compared with last year. Tour operators stated that air capacity was a definite constraint for travel to Canada and is affecting their sales for the first quarter. Once again, tour operators stated that the exchange rate had a favourable effect on sales to Canada.

The most popular first quarter travel product was identified as couples or groups (usually families) as part of a package. The tour operators generally only sell British Columbia and Alberta, with British Columbia being the strongest seller. Winter is the obvious number one product cluster sold, followed by outdoor/sports; and cities and resorts products. (Canadian Tourism Commission foreign offices)

Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook—as indicated by Canadian travel supplier and receptive agent bookings—suggests Australian travel during the first three months of 2003 will expand by 3.5 per cent, compared with 2002. Group travel is expected to increase significantly over other segments—it should be up 6 per cent while independent leisure travel (FIT) is expected to rise by 2 per cent. Business travel will remain flat compared with last year. Once again, travel to the Alberta/BC region is expected to increase the most, up 5 per cent, while travel to Ontario/Quebec will witness growth of 3 per cent.

AUSTRALIA LEISURE TRAVEL Q1 2003
EXPECTATIONS FOR AUSTRALIA Q1 TRAVEL TO CANADA IN 2003 COMPARED WITH SAME PERIOD
LAST YEAR.



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

Australian to Canada Air Capacity, OAG Worldwide

Air capacity will weigh on overall growth as the number of direct seats available falls by 5.9 per cent. This may offset a capacity increase that is expected to take place in the fourth quarter of 2002. The number of seats available for stop-over (one-stop, no aircraft change) travel from Australia is expected to decline 43.6 per cent. While Western Canada is still expected to be well-served, Eastern Canada appears to have lost some stop-over capacity during the first three months of 2003, compared with 2002. It should be noted that the OAG data does not include air capacity on connecting flights that do not have a code sharing arrangement in addition to unscheduled charter operations.

SEATS AVAILABLE FOR STOP-OVER TRAVEL FROM AUSTRALIA TO CANADA (Q1)

	2002	2003
Seats available	33,828	19,080
Per cent change	NA	-43.6

Source: OAG Worldwide.

Summary Outlook for Q1 2003

The Australian economy is healthy. And, Australia remains a good source of visitors. In particular, ski packages to B.C. and Alberta are once again expected to be popular with Australians.

BO Monitor participants expect Australian visits to increase by 3.5 per cent during the first three months of 2003. Group leisure travel should grow by 6 per cent. But, business travel is expected to be flat.

New Zealand Travel Outlook, Q1 2003

Economic Overview

Recent economic data suggests that the New Zealand economy is reaching its peak on the business cycle and growth is likely to be weaker in 2003. Softer gains in both new car registrations and housing sales, as well as a drop in job advertisements and lower retail sales, point to weaker economic activity going into 2003. Also playing a role in dampening GDP activity is a tightening of monetary policy leading to a firmer dollar and high interest rates. Higher interest rates will drag consumption growth down in 2003. Consumption should fall from 4.4 per cent in 2002 to 2.4 per cent in 2003. While both imports and exports have been declining in recent months, exports have been falling at a faster rate. Total output is expected to slow from 3.4 per cent in 2002 to a just below 3 per cent in 2003.

Tourism Trends

Air New Zealand (ANZ) announced that with the start of its new low cost operation, Air New Zealand Express, air fares will be reduced by 50 per cent on selected routes. ANZ promised to reduce ticket prices across its domestic network by an average of 20 to 28 per cent. The new low-cost carrier will begin operations on November 1, 2002.

The Tourism Industry Association of New Zealand (TIANZ) reported the policy of allowing hotel room taxes imposed by local governments was abolished. TIANZ is calling upon the central government to find alternate methods to fund public infrastructure that supports tourism.

According to the CTC foreign office, highly competitive airfares are being maintained to all points in Canada as fare wars continue between Qantas and Air New Zealand/Air Canada. Travel to long-haul destinations is recovering but remains below 2001 levels (overseas travel was down 2.5% to year end July 2002).

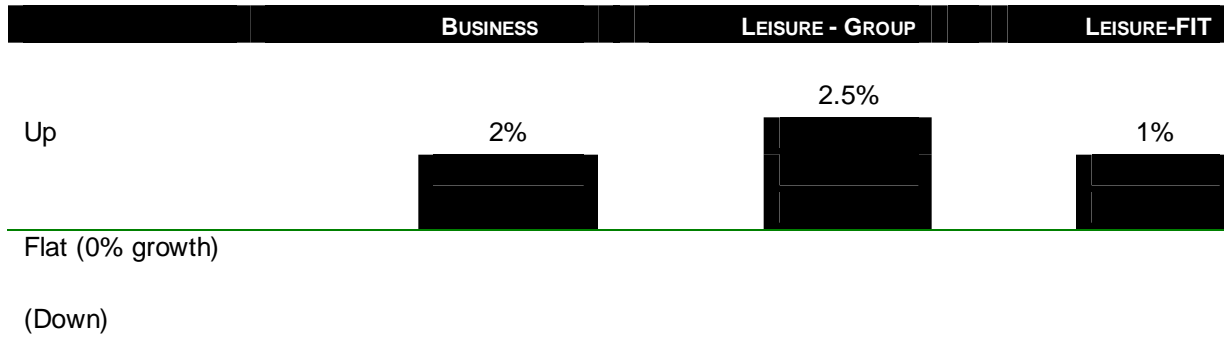
The CTC also reported that Canada is seen as a viable “safe” alternative to the US. Competition to Canada is increasing coming from cruises to the Pacific, Caribbean and European destinations.

Tourism Alberta reported new bookings on Air New Zealand Holidays for their Ski Canada packages are outselling their full USA touring program on a week to week basis in September. According to the CTC, promotion of US ski resorts destinations remains low.

Destination Supplier–Receptive Agent Monitor, Business Outlook

The outlook for New Zealand travel to Canada—as indicated by *BO Monitor* respondents—was positive –up 1.5% for the first quarter of 2003. Responses indicate group leisure travel is expected to grow the most, up 2.5 per cent, while business travel will rise 2.0 per cent and the independent (FIT) leisure segment is up 1.0 per cent. Overall, travel to Ontario/Quebec expected to increase 3.5 per cent while Alberta/BC gains will be flat.

NEW ZEALAND LEISURE TRAVEL Q1 2003
EXPECTATIONS FOR NEW ZEALAND Q1 TRAVEL TO CANADA IN 2003, COMPARED WITH SAME PERIOD LAST YEAR.



Source: Q1 2003 Business Outlook System, Canadian Tourism Research Institute.

Summary Outlook for Q1 2003

Although the New Zealand economy is softening, there is still room for modest growth in 2003 following a grim travel year in 2002. New Zealand travel to Canada, according to *BO Monitor* participants, should rise 1.5 per cent over first quarter of 2003. Competitive airfares between New Zealand and Canada will no doubt help the situation. In particular, *BO Monitor* respondents expect that group leisure travel to Canada during the first quarter of 2003 will increase 2.5 per cent.

Appendix 1: Medium-Term Travel Forecasts (CTRI)

Background

Since 1991–92, the Canadian Tourism Research Institute (CTRI) has used econometric models to forecast international travel both to and from Canada. The forecasts presented here represent an update to those included in the Q4 2002 Business Outlook. These forecasts (completed in September 2002) consider the economic and non-economic motivations for international tourism. It should be noted that the forecasts presented here represent a status quo scenario (particularly in regards to U.S. military action in Iraq).

Travel Forecasts (Medium-Term)

OVERNIGHT TRAVEL FROM SELECT INTERNATIONAL COUNTRIES TO CANADA— ALL PURPOSES (THOUSANDS OF PERSON-TRIPS)

	2001	2002 ^F	2003 ^F
United States	15,570 2.5%	15,766 1.3%	16,053 1.8%
Mexico	148 5.8%	151 1.8%	157 4.0%
United Kingdom	826 -4.2%	757 -8.4%	808 6.8%
France	357 -11.2%	331 -7.2%	351 6.0%
Germany	330 -13.1%	297 -10.0%	320 7.6%
Italy	91 -17.5%	93 2.5%	97 3.8%
Switzerland	97 -7.7%	90 -6.8%	97 7.6%
Netherlands	114 -12.9%	108 -5.4%	115 6.9%
Japan	410 -16.9%	374 -8.8%	389 4.0%
Taiwan	118 -27.5%	105 -10.9%	114 8.1%
South Korea	139 7.7%	143 3.0%	156 9.0%
Hong Kong	125 -8.9%	115 -8.4%	124 7.7%
China	82 10.7%	89 8.5%	95 7.0%
South East Asia	87 2.5%	88 1.5%	95 7.1%
Australia	159 -8.3%	150 -5.3%	161 7.0%

Sources: Canadian Tourism Research Institute; Statistics Canada

Appendix II: Accuracy of Business Outlook

Spring 2002 (March 2002 to May 2002) *Business Outlook* expectations compared to Statistics Canada actual overnight tourists data.

COUNTRY	STATISTICS CANADA OVERNIGHT VISITORS – ACTUAL (MARCH 2002 – MAY 2002)	SPRING 2002 BUSINESS OUTLOOK- PROJECTION
U.S.	+0.4%	-1% to -3%
Mexico	-2.0%	+2%
Brazil	-24.1%	-12% to -16%
U.K.	-13.4%	-4% to -6%
France	-18.0%	-6% to -8%
Germany	-20.5%	-8% to -10%
Italy	-19.2%	-12% to -14%
Netherlands	-7.5%	-5%
Japan	-8.0%	-12% to -14%
Taiwan	-26.9%	-12% to -14%
South Korea	2.6%	-5%
Hong Kong	-18.7%	-6% to -8%
China	6.2%	-4% to -5%
Australia	-18.2%	-6%
New Zealand	-14.2%	-7%