

**RESEARCH**

# **DOMESTIC, U.S. AND OVERSEAS TRAVEL TO CANADA**

## **Short-Term Business Outlook Quarter 4 2003**

**Research  
report  
2003-1-3**

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**CANADIAN  
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DU TOURISME**



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# Domestic, U.S. and Overseas Travel to Canada

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Short-Term Business Outlook  
Quarter 4 2003

Prepared by

The Conference  
Board of Canada

For the

Canadian Tourism Commission

August 2003

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WHAT'S INSIDE

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The purpose of this study is to provide a short-term outlook for domestic & international travel to Canada for the fourth quarter of 2003 (October 2003 to December 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 fourth quarter of 2003 should be interpreted in context with the uncertainty surrounding world affairs. In this respect, the outlook is presented as being valid only under status quo conditions.

**National Library of Canada cataloguing in publication data**

Main entry under title :

Domestic, U.S. and overseas travel to Canada : Short-Term Business Outlook, Quarter 4, 2003

Irregular.

2002-

(Research report)

Issued also in French under title : Voyages intérieurs et voyages en provenance des États-Unis et d'outre-mer à destination du Canada.

Subtitle varies.

Prepared by the Conference Board of Canada.

ISSN 1708-5853

Cat. no. IU85-1/2003-1E

1. Tourism – Canada – Forecasting.
  2. Americans – Travel – Canada.
  3. Tourism – Economic aspects – Canada.
- I. Conference Board of Canada.
  - II. Canadian Tourism Commission.

G155.C3D65

338.4'79171'04648

C2003-980272-8

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## Executive Summary

### Highlights

The outlook for Canada's key markets for the fourth quarter of 2003 (relative to the fourth quarter of 2002) from the *Business Outlook (BO) Monitor* participants is summarized as follows:

#### Q4-2003 Business Outlook for Canada's Key Markets (per cent change over Q4-2002)

COUNTRY	MARKET SEGMENT				
	LEISURE – GROUP	LEISURE - FIT	LEISURE – OVERALL	BUSINESS	TOTAL - OVERALL
Canada	5.0%	1.0%	2.0%	-1.0%	1.0%
United States	-7.5%	-8.0%	-7.8%	-5.0%	-7.0%
Mexico	2.0%	1.0%	1.5%	*	1.5%
Brazil	*	*	*	*	1.0%
United Kingdom	-7.0%	-6.0%	-6.2%	-5.0%	-6.0%
France	-9.0%	-6.0%	-7.3%	-2.0%	-6.0%
Germany	-8.0%	-9.0%	-8.5%	*	-8.5%
Italy	*	*	*	*	-9.0%
Netherlands	*	*	*	*	-5.0%
Japan	-12.0%	-10.0%	-11.5%	-10.0%	-11.0%
Taiwan	-20.0%	-15.0%	-17.0%	*	-17.0%
South Korea	-10.0%	-8.0%	-9.0%	*	-9.0%
Hong Kong	-20.0%	-15.0%	-18.0%	*	-18.0%
China	-12.0%	-5.0%	-8.0%	*	-8.0%
Australia	5.0%	-4.0%	-1.0%	*	-1.0%
New Zealand	2.0%	-3.0%	-1.0%	*	-1.0%

\* Not enough responses to ensure confidentiality

### Background

The short-term *Business Outlook (BO)* provides performance scenarios for Canada's major travel markets. 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 *Business Outlook* report, 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 fourth quarter of 2003, all growth comparisons are reported on a year-over-year basis compared with the fourth quarter of 2002.



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## North American Markets

### Canada

According to *BO Monitor* participants, domestic travel is expected to increase 1 per cent in the fourth quarter of 2003. Leisure travel will retain the strongest growth at 2 per cent, although the pace of growth has slowed continuously since the beginning of this year. Group leisure bookings are expected to increase 5 per cent, making it the strongest growth segment for the fourth quarter by far. While independent (FIT) leisure travel has been leading the rebound in past quarters, it is expected to slow down significantly, posting a modest growth of 1 per cent.

Unfortunately, business travel is expected to drop 1 per cent, after showing signs of stabilizing in previous quarters. This may not be that surprising considering the economy continues to have the greatest impact on business travel—more than geopolitical or health concerns. The Conference Board's latest *Index of Business Confidence* indicates that pessimism over Canada's economic prospects is growing. The current index dropped 20 points in the second quarter of 2003, the biggest decline since the September terrorist attacks almost 2 years ago.

The June results from the Canadian Tourism Research Institute's (CTRI) Winter 2003 *Travel Intentions Survey* also suggest some concern for domestic travel this winter. While overall winter travel intentions remain similar to last year's levels (42%), the number of Canadians intending to vacation within Canada declined by 2.1 per cent, compared with last year. Conversely, the number of travellers choosing a U.S. destination has jumped by 2.5 per cent. In fact, many prospective travellers indicated their decision was influenced by the appreciation of the Canadian dollar.

### U.S.

Unfortunately, *BO Monitor* participants anticipate that overall U.S. travel to Canada in the fourth quarter of 2003 will decline by 7 per cent compared to last year. The outlook for business travel is slightly less pessimistic (-5.0%), while overall leisure travel is expected to decrease by 7.8 per cent, dragged down by an expected 8 per cent drop in independent (FIT) leisure travel. *BO Monitor* respondents indicated that a significant factor in this decline has been the negative impact of SARS media coverage in the U.S. It was further noted that the rising value of the Canadian dollar and the lagging U.S. economy have also played a role. However, many *BO Monitor* participants did state that later booking patterns are becoming more and more prominent. Considering that economic prospects in the U.S. over the next six months are showing signs of improvement, it may still be possible that travel will pick up as the fourth quarter approaches.

Meanwhile, the affordability of travel continues to be the main concern for both leisure and business travellers. U.S. corporations continue to implement more restrictive travel policies in an effort to further reduce spending. At the same time, leisure travellers are comparison-shopping for the best travel deals, and many believe that the best prices come from booking at the last minute. Travel agents are seeing some increase in tour packages, but mainly for shorter, domestic getaways that emphasize relaxing activities.

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## **Mexico**

Overall, *BO Monitor* participants expect leisure travel from Mexico to increase 1.5 per cent during the fourth quarter of 2003. Group leisure travel continues to be the growth leader, increasing by 2 per cent while independent (FIT) travel is expected to post a more modest growth of 1 per cent. Supporting growth expectations is the continued recovery of the Mexican economy as well as a significant increase in direct air capacity. However, air capacity may decrease if Mexico's airlines adjust operations in response to first and second quarter losses.

## **Brazil**

*BO Monitor* participants anticipate that overall Brazilian travel to Canada will grow 1 per cent during the fourth quarter of 2003. This comes on top of a 15.5 per cent increase witnessed in the fourth quarter of 2002. While the growth expected for 2003 is much more modest than the growth seen last year, it should be noted that Brazil is one of the few countries expected to post any growth for the fourth quarter of this year. An expected turnaround in the country's economy and the appreciating value of Brazil's currency should serve to support the expansion of this travel market.

## **European Markets**

### **U.K.**

*BO Monitor* participants expect overall U.K. travel to Canada will fall 6 per cent compared to last year. Leisure travel is expected to decline further than business travel, although the difference is not large. Survey participants seem least optimistic about group leisure travel, which they anticipate will be off by 7 per cent. The consensus is that U.K. travellers are putting off long-haul travel until 2004, but shorter booking patterns mean that the outlook may improve as the fall and winter season approach.

Unfortunately, the U.K. economy is not performing as well as it has during the past several years, and overall consumer confidence in the U.K. continues to fall. Travel suppliers in the U.K. have been finding that tactical price cuts to sell last-minute packages have perpetuated the last-minute booking trend as consumers wait for a better deal. However, a hint of optimism can be drawn from the tour operators surveyed by the CTC. They indicated that their own bookings for the fourth quarter were expected to increase by an average of 10 per cent compared with last year.

### **France**

*BO Monitor* participants expect overall travel from France to decrease 6 per cent during the fourth quarter of 2003, compared to 2002. Leisure travel is expected to perform significantly worse than business travel (-7% versus -2%)—due in part to an expected 9 per cent drop in group packages. The decline in FIT is expected to be smaller. *BO Monitor* participants identified the considerable impact of the SARS outbreak on the French outbound market as a major factor in the decline.

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French tour operators surveyed by the CTC reported that FIT bookings represent the strongest sales trend for the fourth quarter 2003, and many stated that overall bookings were on par with the previous year. Statistics Canada reports that the majority of French travel to Canada in the fourth quarter of 2002 was to visit friends and relatives. If the same trend holds true this fourth quarter, then many Canadian travel suppliers will once again witness fewer French visitors who choose to stay with friends or family.

### **Germany**

*BO Monitor* participants suggest that overall travel from Germany during the fourth quarter of 2003 will decline 8.5 per cent, compared with 2002. In particular, group and independent (FIT) travel is expected to be down 8 and 9 per cent, respectively. Some participants noted that the sluggish German economy continues to hurt the outbound travel market.

Fortunately, there are positive signs that the worst may be over and that an economic recovery is beginning. Some tour operators are already reporting higher sales volumes to Canadian destinations for the fourth quarter, compared with last year, with a particular focus on package tours.

### **Italy**

*BO Monitor* participants expect that travel from Italy is expected to be off by 9 per cent during the fourth quarter of 2003, compared with 2002. If this happens, it will come on top of the 45.7 per cent growth witnessed during the fourth quarter of 2002. The CTC's foreign office in Italy reported that the SARS outbreak was particularly damaging to the Italian outbound market—particularly bookings to Canada. Pessimism about the Italian economy and declines in consumer confidence are also posing problems for the Italian travel market.

That being said, there is still cause for optimism that the outlook for this market will improve. Confidence in long-haul travel seems to be building and U.S. bookings are beginning to increase, bolstered by the appreciating value of the euro against the declining U.S. dollar.

### **Netherlands**

*BO Monitor* participants anticipate that overall travel from the Netherlands will decline 5 per cent during the fourth quarter of 2003. However, Dutch tour operators reported that some travel packages are selling well, particularly those for individuals and couples.

According to these tour operators, the considerable decrease in direct air capacity planned for the fourth quarter has not yet been a deterrent in selling Canadian products for that period, but it could be. KLM, the airline with an 85.5 per cent share of air capacity for that period, is currently undergoing operational cutbacks, which could further affect its long-haul network.

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## Asia/Pacific

### Japan

According to *BO Monitor* participants, overall travel from Japan is expected to decline 11 per cent in the fourth quarter of 2003, compared to 2002. As well, tour operators in Japan reported that bookings for this period are expected to be down anywhere from 15 to 30 per cent.

Unfortunately, according to a recent Tourism Impact Study by the CTC, the SARS outbreak has impacted the Japanese travel market more than most. Almost half of the Japanese polled indicated that their likelihood of visiting Canada had been negatively affected by SARS, and only one-quarter agreed that Canada had succeeded in controlling the disease. It seems as though SARS and to a lesser extent, the war in Iraq, have taken their toll on Japanese international travel intentions. In fact, overall Japanese outbound travel is now estimated to fall 20 per cent in 2003.

### Taiwan

Unfortunately, after experiencing a growth of 36.7 per cent during the fourth quarter of 2002, *BO Monitor* participants expect leisure travel from Taiwan to drop 17 per cent during the fourth quarter of 2003. While group leisure travel is expected to fare the worst, independent (FIT) leisure travel is predicted to plummet as well. A recent fall in Taiwanese consumer confidence was mitigated by sales promotions in the retail and travel sectors, indicating that low prices could potentially help propel a turnaround in the outbound travel market. However, in the wake of the crippling SARS outbreak, the Taiwanese government and tourism industry are putting a great deal of effort into improving their own domestic travel market first.

### South Korea

*BO Monitor* participants anticipate that overall leisure travel from South Korea will decline by 9 per cent during the fourth quarter of 2003, compared to 2002. This drop is expected to be led by a 10 per cent fall in group travel. The Korean economy and consumer confidence have both been weakened by SARS, the war in Iraq, and other internal problems. However, Korean tour operators report that sales of Canadian travel packages are doing well, perhaps signaling that Korean visits may not be as low as anticipated.

### Hong Kong

According to *BO Monitor* participants, overall travel from Hong Kong is expected to slide 18 per cent during the fourth quarter of 2003. This decline follows an 18.6 per cent growth in travel witnessed during the fourth quarter of 2002. The region's tourism industry was devastated by the SARS outbreak and resulted in record-high levels of unemployment. However, many airlines are offering deep discounts to stimulate air travel to and from Hong Kong, and the region's overall economy is expected to improve as the year progresses.

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## **China**

*BO Monitor* participants anticipate travel from China will decline 8 per cent during the fourth quarter of 2003, after posting significant growth during the fourth quarter of 2002. *BO Monitor* participants did note that the group leisure market is expected to decline significantly more than the independent (FIT) leisure market. The projected fall in travel is disappointing, but the anticipated decline is smaller than any other Asian country included in this report. Although the SARS outbreak had a massive impact on China's tourism industry, the country's robust economy mitigated the crippling financial effects of the disease, a positive factor in the potential rebound of the Chinese travel market.

## **Australia**

According to *BO Monitor* participants, overall leisure travel from Australia is expected to decrease 1 per cent during the fourth quarter of 2003, led by a 4 per cent decline in independent (FIT) leisure travel. On the other hand, group leisure travel is expected to expand by 5 per cent and tour operators surveyed by the CTC suggest their overall bookings for the fourth quarter will be better than last year. Australians' usual enthusiasm for international travel has been somewhat muted by world events over the past year, but signs of fourth quarter growth in certain segments of the Australian travel market is encouraging news for Canadian travel suppliers.

## **New Zealand**

According to *BO Monitor* participants, leisure travel from New Zealand is expected to decline 1 per cent during the fourth quarter of 2003, compared to 2002. Independent (FIT) leisure travel is expected to decrease 3 per cent, but this will be partially off-set by a 2 per cent increase in group leisure travel. Supporting expected growth in the group travel segment are recent reports indicating that the SARS outbreak affected business travel in New Zealand more than the leisure market. The stronger New Zealand dollar should also enhance the potential of this travel market.

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## International Travel Statistics – Statistics Canada

### Overnight Travel to Canada, January-May 2003

COUNTRY	PERSON-TRIPS	CHANGE OVER 2002(%)
United States	3,916,637	-13.5
Mexico	43,079	-1.25
Europe	538,540	-4.98
United Kingdom	230,727	-2.87
France	85,539	-1.48
Germany	68,508	-7.17
Netherlands	26,184	-4.39
Italy	15,226	-17.03
Asia	273,519	-25.79
Japan	89,965	-26.10
South Korea	40,871	-14.15
Taiwan	16,514	-53.32
Hong Kong	27,094	-30.99
Oceania	63,139	4.64
Australia	53,469	5.41

*Source: International Travel Survey, Statistics Canada.*



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## Introduction

The purpose of this report is to provide a short-term outlook for domestic and international travel to Canada for the fourth quarter of 2003 (October 2003 to December 2003) using readily available market intelligence in a timely and cost-efficient 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.

The short-term outlook presented within this report 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 Business Outlook Monitor*. The *BO 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's (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's foreign posts and obtains advance bookings and market intelligence from key foreign tour operators in each country.

All advance-booking data and market intelligence collected by the *Destination Supplier–Receptive Agent Business Outlook Monitor* is confidential and not included in the short-term outlook if any individual response can be singled out. All dissemination of *BO 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 CTRI.

The short-term outlook for travel to and within Canada for the fourth quarter of 2003 should be examined in context with the financial challenges currently facing many Canadian tourism suppliers. Specifically, the responses of *Business Outlook (BO) Monitor* participants were collected at a time when many were experiencing their worst financial declines since the fallout of the terrorist attacks in September 2001—an event from which the tourism industry had not yet fully recovered. The combination of the war in Iraq and, more significantly, the effects of the SARS outbreak have induced a heavy dose of prudence among Canadian travel suppliers in estimating the timing of a recovery. With this in mind, it is not that surprising to find the bulk of *BO Monitor* participants remain quite cautious about the travel outlook for the final quarter of this year.





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## Economic Overview

### World Outlook

The world economy is expected to expand by only 2 per cent this year, almost identical to the meagre 1.8 per cent real growth attained in 2002. The weak growth is a result of the fact that five important countries are in the midst of recessions with broad declines in output, employment and income. The Netherlands, Germany, Norway, Switzerland and Mexico have displayed two consecutive quarters of declining output and decreases in income. Brazil, Finland and Italy are in marginally better shape, although each recorded negative growth in the first quarter of this year.

While the global economic outlook is hardly inspiring, increasingly aggressive fiscal and monetary policy initiatives undertaken in the United States should accelerate growth in the second half of this year and pull along growth in the rest of the world as well. The world economy needs a more vibrant U.S. economy given that Japan's economy is still contending with deflation and is in danger of slipping back into recession, while Europe's is stagnant. The current outlook assumes that world economic activity will pick up in the second half of this year and into 2004 in line with better economic prospects in the United States. In 2004, the world economy is forecast to grow by close to 3 per cent.

### North America

Weak growth in all of the countries in North America will imply that real GDP growth will expand by 2.3 per cent this year. Real growth in Canada will be negatively affected by the rising Canadian dollar, while the lack of investment spending continues to have an impact on U.S. economic prospects. Weak U.S. manufacturing activity has harmed Mexico's export growth. In 2004, an anticipated rebound in all three economies will result in real GDP growth of 3.6 per cent.

One of the casualties of the successful U.S. military operation in Iraq has been the performance of the economy. This is most evident from the nation's job market where the ongoing reduction in payrolls has resulted in a loss of over two million jobs since the spring of 2001. Despite the current malaise, economic activity is expected to pick up in the second half of this year, mainly because of an increase in business investment spending and exports. Real GDP is forecast to expand by 2.3 per cent in 2003, almost identical to the 2.4 per cent growth recorded in 2002. Next year, much stronger growth of 3.8 per cent is anticipated.

### South America

Real GDP is expected to grow by 1.5 per cent in 2003 as the economic difficulties in Brazil, the region's largest economy, will continue to drag down overall growth. While growth of 1.5 per cent cannot be considered stellar, it is at least positive compared with the contraction of 1.2 per cent in growth last year. In addition to the economic difficulties in Brazil, the region's growth will be negatively affected by the ongoing economic catastrophe in Venezuela. The economic dislocation caused by the strike-induced loss of oil revenue will result in a dramatic decline of close to 14 per cent in real GDP in 2003. In 2002, real growth plunged by 8.9 per cent. On the positive side, economic activity has rebounded in Argentina, and Chile remains an island of stability in this troubled part of the world. In 2004, better economic prospects in both Brazil and Venezuela will result in real GDP growth of 3.6 per cent.

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## Euroland

Europe will record anemic growth in 2003 of not much more than 1.0 per cent and real growth of only around 2.0 per cent is anticipated in 2004. The appreciating euro has undermined the competitiveness of many countries and, as a result, the foreign sector is actually subtracting from economic growth. While Germany is currently the weakest performer, it has plenty of company. The Netherlands is in the midst of a recession as the weakness in the German economy, the Netherlands' largest trading partner, has had a negative impact on manufacturing and the hospitality sector of the economy. In Switzerland, the strong Swiss franc and weak euro-zone economy are crimping exports and pushing up imports, thereby leading to a large negative contribution from the foreign sector. Real GDP growth will be less than 2.0 per cent in the 2003-2004 period.

## Asia-Pacific

The rapid spread of the SARS virus across Asia has taken a heavy toll on the region's growth prospects for 2003. To date, SARS has been the most virulent in countries like China, Hong Kong and Singapore. Real GDP in Singapore, for instance, has been reduced from 3.8 to 2.1 per cent. One of the main casualties has been the tourism industry, a sector of significant importance for many countries in this region. Hotels, restaurants and entertainment are all feeling the pinch as travellers stay home due to the fear of SARS. Also, consumer spending has taken a hit as consumers avoid public places like shopping centres.

Fortunately, the major impact of SARS was felt in the second quarter of this year and economic activity is expected to pick up in the second half of this year in line with a rebound in U.S. demand for electronic exports from this region. Real GDP is expected to expand by 2.3 per cent this year and 2.6 per cent in 2004.

## Exchange Rates

**Exchange Rate Comparison – June 2002 to June 2003**  
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	--	13.3%	1.2%	-7.2%	8.7%	15.8%	-3.3%
U.S. dollar	-11.7%	--	-10.7%	-18.1%	-4.0%	2.2%	-14.6%
British pound	-1.2%	11.9%	--	-8.3%	-8.3%	14.4%	-4.4%
Euro	7.8%	22.1%	9.1%	--	17.2%	24.8%	4.3%
Japanese yen	-8.0%	4.2%	-6.9%	-14.7%	--	6.4%	-11.0%
Taiwanese dollar	-13.6%	-2.1%	-12.6%	-19.9%	-6.1%	--	-16.4%
Australian dollar	3.4%	17.1%	4.6%	-4.1%	12.4%	19.6%	--

Source: *The Pacific Exchange Rate Service*

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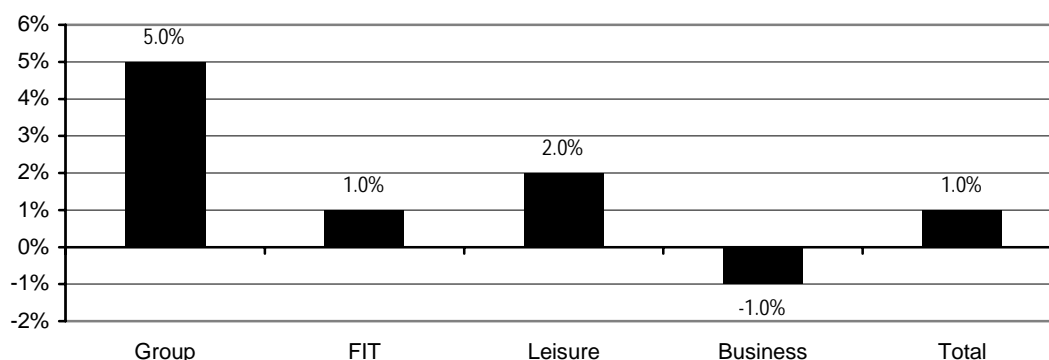
## Domestic (Canada) Travel Outlook, Q4 2003

### Economic Overview

The Canadian economy is in for a rough ride over the summer months. The Canadian dollar surged against its U.S. counterpart by 14 per cent in the first half of the year. Growth is forecast to slow markedly, averaging 0.2 per cent in the middle two quarters of the year. However, renewed U.S. economic growth and additional monetary stimulus will enable the Canadian economy to emerge from the doldrums by the final quarter of the year and post decent growth in 2004. After reaching 3.3 per cent in 2002, GDP growth is forecast to moderate to 1.9 per cent this year before accelerating to 3.2 per cent in 2004.

### Destination Supplier–Receptive Agent Monitor, Business Outlook

**Short Term Outlook – Q4 2003**  
**Overnight Domestic Travel**  
(per cent change from previous year – same quarter)



*Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute.*

The business outlook—as indicated by Canadian travel suppliers and receptive agent bookings—suggests a 1 per cent growth in overall advance bookings for domestic travel for the fourth quarter of 2003, compared to the previous year.

According to *BO Monitor* participants, leisure travel will retain the strongest growth (2%), although the pace of growth has slowed continuously since the beginning of this year. Unfortunately, business travel will drop 1 per cent, after showing signs of stabilizing in previous quarters.

Group leisure bookings are expected to increase 5 per cent compared with the fourth quarter of last year, making it the strongest growth segment for the fourth quarter by far. While independent (FIT) leisure travel has been leading the rebound in past quarters, it is expected to slow down significantly, posting a modest growth of 1 per cent.

*BO Monitor* participants indicated that domestic travel growth expectations varied across Canada. Atlantic Canada was expected to experience the strongest growth in domestic travel over the fourth quarter at 2 per cent, followed by Manitoba/Saskatchewan (1.5%) and Alberta/B.C. (1.0%). Expectations for the Ontario/Quebec region remain stable, with travel at the same level as the fourth quarter of 2002.

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

Canadian consumer confidence slid by the end of the second quarter, continuing a trend of gradual decline that began a year ago. In the June survey, spending was the only category that reflected more optimism by respondents, but levels in all other categories, such as optimism about respondents' future financial situation, declined compared with the May survey. Overall, the June results were almost 10 points lower than a year ago.

### Consumer Confidence (1991=100 Index)

	2003:03	2003:04	2003:05	2003:06
Consumer Confidence Index	115.3	121.9	122.9	119.1

*Source: The Conference Board of Canada.*

According to the Canadian Tourism Research Institute's (CTRI) latest *Winter Travel Intentions Survey*, conducted in June, 42 per cent of Canadians polled stated that they would definitely or probably take a winter vacation this year (sometime between November and April). This is the same figure reported in the 2002 survey, but significantly higher than the 2001 survey, when travel intentions were down to 33 per cent.

While overall winter travel intentions remain similar to last year's levels, the appreciation of the Canadian dollar has apparently influenced many more Canadians to consider a U.S. destination for their winter holiday this year, compared with last year. Since the early '90's, winter vacation intentions to the U.S. had fallen, with the decline mostly attributed to the impact of the high exchange rate on the cost-conscious auto traveller.

However, after 9/11 there was an increase in the number of travellers choosing to travel to the U.S. by car, rather than by air. This winter it appears that Canadians are beginning to feel more comfortable about flying, not only to U.S. destinations but also domestic destinations.

Unfortunately, overall domestic travel intentions appear to be down this winter. While the majority of travellers still plan on driving, a much higher percentage intend to travel by air. In fact, the latest survey suggests that 21 per cent of Canadians plan on travelling by airplane for their domestic winter holiday, compared to only 10 per cent last year. The biggest impact of this switch back to air travel appears to come at the expense of automobile travel, which is now expected to account for 69 per cent of domestic travel this winter.

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### Winter (Nov-Apr) Vacation Intentions – June Results (Per cent)

	2003	2002	2001
Winter Vacation Intended	42.0	42.1	33.5
Canada	16.4	18.5	14.7
US	10.1	7.6	6.7
Mexico/Caribbean	7.6	7.2	6.0
Europe	2.5	2.5	2.0
Asia/Australia	1.3	1.3	1.0
Other	2.9	2.5	1.3
NotSure	1.3	2.5	1.7

Source: The Conference Board of Canada.

## Summary Outlook for Q4 2003

According to *BO Monitor* participants, domestic travel is expected to increase 1 per cent in the fourth quarter of 2003. Leisure travel will retain the strongest growth at 2 per cent, although the pace of growth has slowed continuously since the beginning of this year. Group leisure bookings are expected to increase 5 per cent compared with the fourth quarter of last year, making it the strongest growth segment for the fourth quarter by far. While independent (FIT) leisure travel has been leading the rebound in past quarters, it is expected to slow down significantly, posting a modest growth of 1 per cent.

Unfortunately, business travel will drop 1 per cent, after showing signs of stabilizing in previous quarters. This is not surprising considering that the economy continues to have the greatest impact on business travel plans, more than geopolitical or health concerns. The Conference Board's latest *Index of Business Confidence* indicates that pessimism over Canada's economic prospects is growing—the index dropped 20 points in the second quarter of 2003, the biggest decline since the September terrorist attacks almost 2 years ago.

Supporting domestic travel growth projections are findings from the Canadian Tourism Research Institute's (CTRI) *Winter 2003 Travel Intentions Survey*. The June survey found that 42 per cent of Canadians polled intended to take a winter vacation (between November 2003 and April 2004). While overall winter travel intentions remain similar to last year's levels, the number of Canadians choosing a domestic vacation spot appears to have declined—2.5 per cent more Canadians appear to be considering a U.S. destination for their winter holiday this year, compared with last year. Many of these travellers indicated that their decision was influenced by the appreciation of the Canadian dollar.



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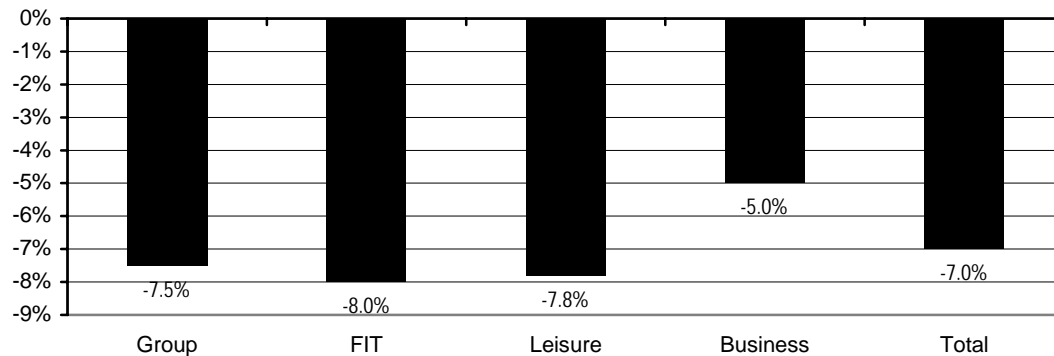
# U.S. Travel Outlook, Q4 2003

## Economic Overview

The nervousness that has beset the U.S. economy since 9/11 was not helped by the outbreak of war and the speculation that preceded it. And while the successful conclusion of the war with Iraq boosted confidence in the following weeks, the economy has been slower to respond. However, there are signs that the long-awaited rebound is gathering steam. The decline in world oil prices following the war will lower production costs and boost real disposable incomes. Consumers will be sustained until that time by federal tax cuts, and the most recent –and probably the last for awhile– wave of mortgage refinancing. The U.S. economy will continue to strengthen in 2004. Growth in real GDP is expected to reach 3.8 per cent in 2004.

## Destination Supplier–Receptive Agent Monitor, Business Outlook

**Short Term Outlook – Q4 2003**  
**Overnight Person-Trips from the U.S. to Canada**  
(per cent change from previous year – same quarter)



*Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute.*

Unfortunately, the outlook for overall U.S. travel to Canada in the fourth quarter of 2003 —as indicated by *BO Monitor* participants—suggests a decline of 7 per cent compared to last year. Business travel is expected to post the smallest drop (5.0 %), while overall leisure travel will decrease by 7.8 per cent, led by an 8 per cent drop in FIT bookings.

*BO Monitor* participants feel that a significant factor of this decline has been the negative effect of SARS media coverage in the U.S. Although the SARS outbreak occurred specifically in Toronto, Americans appear to be reluctant to book trips to any destination in Canada, even into the latter part of this year. The appreciating value of the Canadian dollar combined with the lagging U.S. economy has also had a negative impact. However, *BO Monitor* participants did note that late booking patterns are becoming more and more prominent, indicating that bookings may pick up as the fourth quarter approaches. Shorter, cross-border auto trips will likely be one of the stronger travel markets this fall and winter, but overall U.S. leisure travel is not expected to recover before the end of this year.



According to *BO Monitor* participants, Ontario is the Canadian region expected to see the most significant drop in U.S. travel (down 10 %) while travel to Manitoba/Saskatchewan and Alberta/British Columbia is expected to fall by 4 per cent in each region. Atlantic Canada is expected to experience the smallest drop-off (-3%) in the fourth quarter of 2003.

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

The Conference Board's Consumer Confidence Index, which improved moderately in May, was flat in June. The Index now stands at 83.5 (1985=100), down from 83.6 in May. However, the Expectations Index increased to 95.9 from 95.4 although the Present Situation Index declined to 64.9 from 67.3. While consumers' assessment of current conditions dropped in the second quarter of 2003, the improvements in the stock market and the unemployment rate have bolstered consumer expectations, and may be a signal of better economic prospects ahead.

### Consumer Confidence (1985=100 Index)

	MAR 2003	APR 2003	MAY 2003 (R)	JUNE 2003 (P)
Consumer Confidence Index	61.4	81.0	83.6	83.5
Present Situation	61.4	75.2	67.3	64.9
Expectations	61.4	84.8	94.5	95.9

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

The latest bimonthly U.S. Travel Intentions survey by The Conference Board Inc. reported that overall U.S. travel intentions in June of 2003 decreased again, continuing a downward trend that began in late 2002. U.S. travel intentions have slid from October 2002, when 47.3 per cent of respondents indicated they would take a vacation over the next 6 months, to June 2003, when only 41.2 per cent intend to travel.

Unfortunately, foreign travel intentions continue to look particularly weak. The survey reported that the percentage of Americans who intend to travel outside the U.S. decreased in June to 7.2 per cent after an increase in December. However, compared with last year in June, foreign travel intentions have remained almost flat (-0.1%) while domestic travel intentions are down 2.6 per cent.

### Vacation Intentions (Seasonally adjusted) (%)

	DEC 2002	FEB 2003	APR 2003	JUNE 2003 (P)
Vacation Intended	43.3	42.7	42.4	41.2
U.S.	34.7	35.5	37.0	35.8
Foreign	9.1	8.7	7.1	7.2

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

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## 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 is important since the growth for specific travel segments is linked to improvements made with respect to air access.

**Seats Available for Travel from the U.S. to Canada, Q4**

	<b>2002 (DIRECT)</b>	<b>2003 EST. (DIRECT)</b>
Non-stop seats available	3,752,988	3,605,722
Per cent change	N/A	-3.9

*Source: OAG Worldwide*

The number of seats available (as of July 2003) for direct U.S. to Canada air travel during the fourth quarter of 2003 has been reduced by 3.9 per cent compared with the same period in 2002. In terms of air travel, the risks continue to be on the downside as airlines continue to cut capacity to improve load factors, in order to off-set the dramatic decreases in passenger traffic that occurred during the SARS outbreak. This may create a hindrance for visitors travelling to Canada from the U.S. in the fourth quarter. According to OAG, Air Canada's share of direct air capacity during this period is 42 per cent.

## Summary Outlook for Q4 2003

Unfortunately, *BO Monitor* participants anticipate that overall U.S. travel to Canada in the fourth quarter of 2003 will decline by 7 per cent compared to last year. The outlook for business travel is slightly less pessimistic (-5.0 %), while overall leisure travel is expected to decrease by 7.8 per cent, led by an 8 per cent drop in independent (FIT) leisure travel. *BO Monitor* respondents indicated that a significant factor of this decline has been the negative impact of SARS media coverage in the U.S. The appreciating value of the Canadian dollar combined with the lagging U.S. economy have also deterred leisure travellers. However, many *BO Monitor* participants did note that late booking patterns are becoming more and more prominent. Considering that economic prospects for the next six months are showing signs of improvement, it is still possible that travel may pick up as the fourth quarter approaches.

However, the cost of travel continues to be the main concern for both leisure and business travellers. U. S. corporations are implementing more restrictive travel policies to reduce spending. Leisure travellers are comparison-shopping for the best travel deals, and many believe that the best prices come from booking at the last minute (another factor affecting late booking patterns). Travel agents are seeing some increase in tour packages, but mainly for shorter, domestic getaways that emphasize relaxing activities.



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# Mexico Travel Outlook, Q4 2003

## Economic Overview

Mexico's economic recovery continues but weak foreign and domestic demand conditions are muting its strength. In fact, The Conference Board Inc. announced that the leading index remained unchanged in April. This year, real GDP growth of 2.2 per cent is anticipated while in 2004 the economy is expected to expand by 4.0 per cent as stronger growth in the U.S. manufacturing sector leads to a recovery in Mexico's exports.

## Tourism Trends

A survey by The Canadian Tourism Commission's (CTC) foreign office in Mexico reported that just before and during the war in Iraq, travel intentions to Canada increased when the fear of terrorist attacks in the U.S. and Europe prompted Mexican travellers to look for destinations that were safe. Unfortunately, when the SARS outbreak occurred, travel intentions to Canada were impacted by the perceived threat of the disease.

However, a June survey by the Canadian Tourism Commission on the impact of SARS indicated that the outbreak of the disease has not caused permanent damage to the Mexican market. When asked how much the SARS outbreak would affect their likelihood of travelling to Canada, 57 per cent of respondents replied that it was not very or not at all likely, while 71 per cent indicated that they believed Canada had succeeded in controlling the SARS virus. The survey also indicated that Mexican travellers did not anticipate a long-term disincentive to travel to Canada.

Arturo Barahone, CEO of AeroMexico, Mexico's largest airline, recently stated that Mexico's airline industry would have to make larger operational adjustments in the second half of 2003, to overcome the losses it suffered in the first half of this year. Barahone stated that Mexican carriers had not cut their air capacity, as airlines in other countries have done over the last few months, resulting in an excess domestic capacity of 20 per cent. AeroMexico is striving to reduce this capacity excess in order to help achieve stability in Mexico's air sector, which has also been weakened by recent price wars.

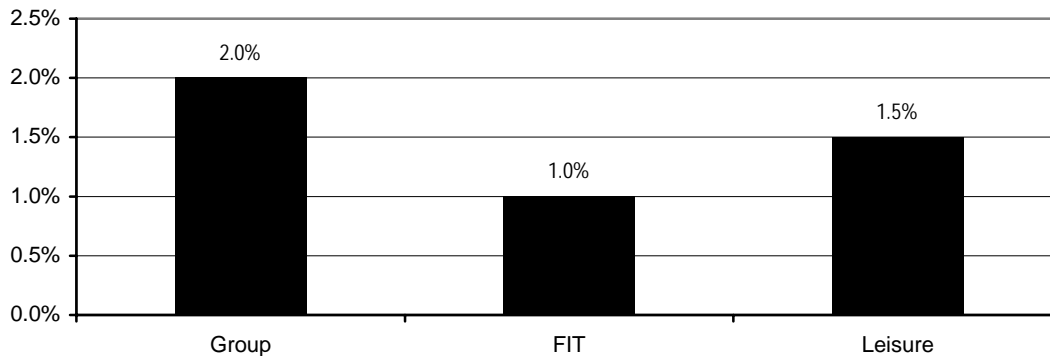
## Market Overview

The Mexican tour operators surveyed by the CTC reported that sales of Canadian products for the fourth quarter of 2003 are expected to be down 1.5 per cent compared with the same quarter a year earlier. When asked if direct air capacity to Canada represented a problem in selling Canadian products for this period, the response was mixed, with some indicating it was a constraint, and some indicating it was not. The tour operators also reported that the exchange rate did not affect Canadian bookings for the fourth quarter.

No particular sales trends were identified with respect to package types, but tour operators did identify the most popular Canadian region destinations. Ontario was the most popular, representing 39 per cent of all sales to Canada, followed by British Columbia (27%), Quebec (24%) and Alberta (5%).

## Destination Supplier–Receptive Agent Monitor, Business Outlook

### Short Term Outlook – Q4 2003 Overnight Person-Trips from Mexico to Canada (per cent change from previous year – same quarter)



Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from Mexico in the fourth quarter of 2003—as indicated by *BO Monitor* participants—is for a modest 1.5 per cent growth. Similar to previous quarters, group leisure travel is expected to post the most gains (up 2%) while independent (FIT) leisure travel is up 1 per cent. Overall, Mexico is expected to experience the largest travel growth among all countries surveyed.

## Mexico-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Mexico is expected to be up 22.1 per cent during the fourth quarter of 2003, compared with the same period in 2002. Even if only some of these gains hold, it appears that air capacity will not represent a major constraint for Mexican travel to Canada. According to OAG, Air Canada’s share of direct air capacity during this period is 35.7 per cent.

### Seats Available for Travel from Mexico to Canada, Q4

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	52,324	63,935
Per cent change	N/A	22.1

Source: OAG Worldwide.

## Summary Outlook for Q4 2003

Overall, *BO Monitor* participants expect leisure travel from Mexico to increase 1.5 per cent during the fourth quarter of 2003. Group leisure travel continues to be the growth leader, increasing by 2 per cent while independent (FIT) travel is expected to post a more modest growth of 1 per cent. Supporting growth expectations is the continued recovery of the Mexican economy as well as a significant increase in direct air capacity. However, air capacity may decrease if Mexico’s airlines adjust operations in response to first and second quarter losses.

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## Brazil Travel Outlook, Q4 2003

### Economic Overview

Tight monetary policy and high oil prices took their toll on Brazil's economy in the first half of this year. While oil prices have eased since the end of the conflict with Iraq, monetary policy will remain restrictive in the near term and this will constrain economic growth. Still, real GDP is expected to grow by 1.9 per cent this year and 2.9 per cent in 2004.

### Tourism Trends

The Travel Industry Association of America (TIA) reported that leisure travel fell significantly in Brazil by the end of the first quarter of this year, due to uncertainty about Brazil's new government, a weak currency, the U.S. led war in Iraq, and finally SARS. TIA also reported that the Brazilian travel market is sensitive to fluctuations in their currency, therefore a more favourable exchange rate will help stimulate outbound travel. Fortunately, the Brazilian *real* has been gaining in value since the beginning of this year, and is expected to continue to appreciate against the dollar and other world currencies throughout 2003. On the other hand, business travel is expected to increase by 5 per cent this year.

Meanwhile, the merger between Varig and TAM has faced a number of legal and financial hurdles which may delay the expected September completion date. Varig's huge debt load may force the airline to downgrade its stake in the new company, which is expected take over 70 per cent of Brazil's air travel market. Industry analysts are now predicting that the merger will result in a decrease in the combined fleet of the two airlines, and may result in the loss of 8,000 jobs.

### Destination Supplier–Receptive Agent Monitor, Business Outlook

**Short Term Outlook – Q4 2003**  
**Overnight Person-Trips from Brazil to Canada**  
(per cent change from previous year – same quarter)



Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute

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The outlook for overall travel from Brazil in the fourth quarter of 2003—as indicated by *BO Monitor* participants—suggests a modest increase of 1 per cent, compared to last year. This comes on top of a 15.5 per cent increase seen in the fourth quarter of 2002, compared with 2001.

## Brazil to Canada Air Capacity, OAG Worldwide

Direct air capacity to Canada is expected to be flat during the fourth quarter of 2003, compared to the same period in 2002. According to OAG, Air Canada accounts for 100 per cent of the direct air capacity during this period.

### Seats Available for Direct Travel from Brazil to Canada, Q4

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	16,536	16,536
Per cent change	N/A	0.0

*Source: OAG Worldwide.*

## Summary Outlook for Q4 2003

*BO Monitor* participants anticipate that overall Brazilian travel to Canada will experience growth of 1 per cent during the fourth quarter of 2003. This comes on top of a 15.5 per cent increase seen in the fourth quarter of 2002 compared with 2001. While the growth expected for 2003 is much more modest than last year, Brazil is one of the few countries expected to post any growth for this quarter. An expected turnaround in the country's economy, as well as the appreciating value of Brazil's currency should serve to support the growth in the Brazilian travel market.

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# U.K. Travel Outlook, Q4 2003

## Economic Overview

Current economic conditions in the United Kingdom highlight the differences between the U.K. economy and Europe. Real GDP is expected to increase by 2 per cent in 2003 compared with 1 per cent in the euro zone. Nevertheless, the U.K. economy is performing relatively less well compared to the last several years. Overall consumer confidence has fallen significantly.

## Tourism Trends

Travel Weekly reported that tour operators were growing increasingly worried, heading into the summer season, as consumers continued to put off travel bookings as they waited for further price reductions. Pressure to reduce prices is quite high, with many operators making tactical price cuts to improve sales.

According to a recent survey by Carlson Wagonlit Travel, the direct cost of travel is more important than ever to U.K. companies. Of those polled, 100 per cent rated the importance of the direct cost of travel more important than two years ago, and 85 per cent voted against using first-class services while on a business trip.

The CTC reported that by the end of March, 60 per cent of families who normally book a summer holiday had not booked one for 2003, and the overall adult market was down 20 per cent compared with the same period a year earlier. Tour operators reported an increasing demand for fly-drive holidays in Europe using low-cost airlines, whereas similar holidays to the U.S. had declined. However, tour operators predicted that travellers will avoid euro zone destinations in 2004 due to the declining value of the pound versus the euro.

The CTC also reported the results of a SARS tourism impact survey in June, which indicated that the effects of SARS were only a short-term deterrent for UK travellers in choosing a Canadian destination. When asked directly how much the SARS outbreak would affect their likelihood of travelling to Canada, two-thirds of British international travellers responded not very, or not at all likely. Overall, 9 per cent of the travellers polled who intend to take a long-haul trip within the next 12 months mentioned Canada as their preferred destination.

## Market Overview

According to U.K. tour operators surveyed by the CTC, sales of fall products in Canada are expected to be up 10 per cent compared with last year. On the whole, air capacity was not identified as a hindrance in selling Canadian trips for the fourth quarter 2003. However, the favourable exchange rate of the U.K. pound versus the Canadian dollar is expected to have a positive effect on U.K. travel to Canada.

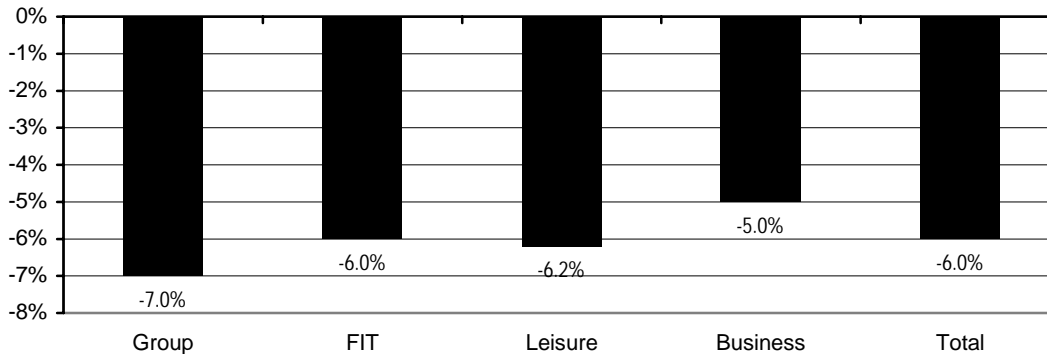
The strongest sales trend appears to be FIT bookings with no package, as opposed to FIT travellers with packages, or groups with packages. The tour operators also reported that interest was spread fairly evenly between British Columbia (33% of all sales to Canada), Alberta (25%) and Ontario (30%).



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## Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2003  
Overnight Person-Trips from the U.K. to Canada  
(per cent change from previous year – same quarter)



Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute

Unfortunately, the *BO Monitor* tells a different tale. The outlook for overall travel from the U.K. in the fourth quarter of 2003 is for a 6 per cent decrease compared to last year. After modest gains in previous quarters, this is a sharp downturn. The outlook for business travel is not quite as bleak as leisure travel, but the difference is not large. With a drop of 7 per cent expected, group leisure travel will experience the largest loss, while the independent (FIT) leisure travel segment is expected to decrease by 6 per cent.

U.K. travel to Ontario/Quebec and Alberta/B.C. is expected to decrease by 7 per cent and 6 per cent respectively. Unfortunately, these were the only regions of Canada where responses could ensure confidentiality.

*BO Monitor* participants indicated that, although world events have somewhat stabilized, it appears UK travellers are putting off long-haul travel until 2004. A “wait-and-see” attitude still prevails, which is perpetuating the trend in shorter booking patterns.

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

The number of direct seats available (as of June 2003) for travel from the U.K. to Canada during the fourth quarter of 2003 is expected to increase by a modest 1.5 per cent compared with the same period a year earlier. Air capacity is not expected to represent a constraint for travel from the U.K. to Canada in the fourth quarter of this year. According to OAG, Air Canada’s share of direct air capacity during this period is 61.2 per cent.

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### Seats Available for Direct Travel from the U.K to Canada, Q4

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	374,093	379,656
Per cent change	N/A	1.5

Source: OAG Worldwide

## Summary Outlook for Q4 2003

Unfortunately, according to *BO Monitor* participants, overall U.K. travel to Canada is expected to fall by 6 per cent compared to last year. Leisure travel is expected to decline further than business travel, although the difference is not large, with group leisure bookings experiencing the largest loss (-7%). The consensus among *BO Monitor* participants is that U.K. travellers are putting off long-haul travel until 2004, although this may reflect a pessimism based on current bookings for the fourth quarter. Considering the continuing trend of shorter booking patterns, there exists a possibility that the outlook will improve as the fall approaches.

Meanwhile, the U.K. economy is not performing as well as it was during the past several years, and overall consumer confidence in the U.K. continues to fall. Travel suppliers in the U.K. have been finding that tactical price cuts to sell last-minute packages have perpetuated a last-minute booking trend as consumers wait for a better deal. However, a hint of optimism can be drawn from the tour operators surveyed by the CTC, who indicated that their own bookings for the fourth quarter had increased by up to 10 per cent when compared with the downturn in sales experienced in the same quarter of 2002. They reported that the strongest sales trend is for FIT bookings with no package, which supports the smaller decline in FIT bookings reported by *BO Monitor* participants. A slight increase in air capacity during the fourth quarter will ensure there is sufficient air transportation available for these travellers to come to Canada.



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## France Travel Outlook, Q4 2003

### Economic Overview

The rising euro is having a negative impact on industrial production in France. Overall real GDP is forecast to grow by 1 per cent this year and 2 per cent in 2004. Consumer spending, the main source of strength for the French economy, is at risk due to rising unemployment. French consumer confidence from personal finances to major purchases has been weak. In fact according to the European Commission, both are near six-year lows. On a positive note, the latest data from June shows that confidence seems to have (at least) stopped falling. Overall real GDP is forecast to grow by 1.0 per cent this year and 2.0 per cent in 2004.

### Travel Trends

The Australian Tourist Commission reported in July that the global outlook in France was becoming more positive as the fear of SARS subsided. However, sales of tours to foreign destinations remained slow. In fact, French retail travel agents have reported a 9 per cent decrease of sales since the beginning of this year.

The Canadian Tourism Commission's (CTC) foreign office in France reported in June that sales of domestic travel products were quite strong, while North American and Asian bookings remained weak. According to a tourism impact study conducted in June by the CTC, the SARS outbreak was a concern for more than half of the French international travellers polled. When asked how much the SARS outbreak would affect their likelihood of travelling to Canada in the next six months, 58 per cent responded "very likely" or "somewhat likely."

Statistics Canada reported in its International Travel Survey that of the 55,900 travellers to Canada from France in the fourth quarter 2002, the majority of visitors (54.5%) were visiting family and friends. Only 23.2 per cent were in Canada for a leisure holiday, and an even smaller number (19.8%) were travelling for business.

Air France reported that improvements in advance bookings observed in May resulted in a strong upturn in operations on all networks in June. The airline also noted that passenger traffic had finally returned to last year's levels after dropping sharply during the SARS outbreak.

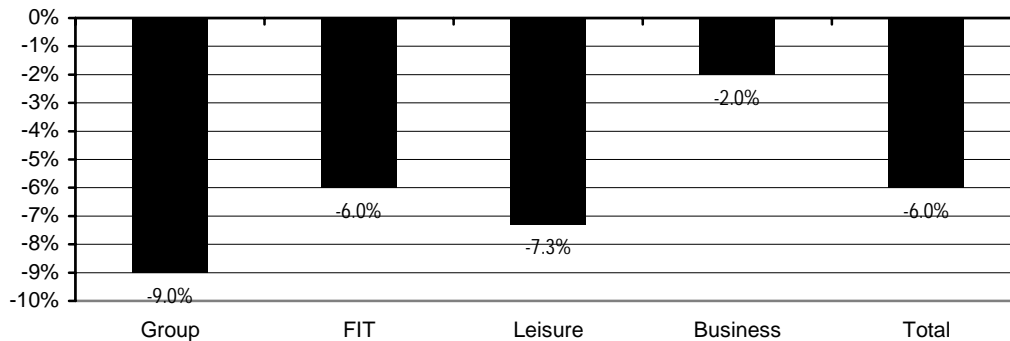
### Market Overview

According to the French tour operators surveyed by the CTC, most expect their sales for travel to Canada during the fourth quarter 2003 to be approximately the same as last year. On the whole, air capacity was not identified as a problem in selling Canadian products during this period. Meanwhile, the appreciation of the euro versus the Canadian dollar is expected to help attract more French tourists.

The strongest sales trend appears to be FIT bookings, both with and without packages, as opposed to group packages. The tour operators surveyed indicated that interest was focused on Quebec (80% of all sales) and Ontario and Alberta/BC (10% each of all sales). Similar to previous quarters, the nature product cluster is proving to be the most popular type of package purchased, followed by touring, cities and resorts, and outdoor/sports.

## Destination Supplier–Receptive Agent Monitor, Business Outlook

**Short Term Outlook – Q4 2003**  
**Overnight Person-Trips from France to Canada**  
(per cent change from previous year – same quarter)



Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from France in the fourth quarter of 2003—as indicated by *BO Monitor* participants—is for a decline of 6.0 per cent, compared with the same period last year. This comes on top of a 2.4 per cent drop in the fourth quarter of 2002. *BO Monitor* participants appear to be slightly less pessimistic about business travel (down -2%) while leisure travel is expected to decline 7.3 per cent. Group travel appears to be leading the decline (-9%), followed by FIT travel (-6%).

*BO Monitor* participants indicated that the effects of the SARS outbreak had a greater impact on the French travel market than many other international markets, reinforcing the continuing trend of short-haul, closer-to-home destinations for French travellers.

## France-to-Canada Air Capacity, OAG Worldwide

Direct air capacity is expected to increase by 1.7 per cent during the fourth quarter of 2003, indicating that air capacity should not represent a concern for French travel to Canada during the fourth quarter of 2003. According to OAG, Air Canada’s share of direct air capacity during this period is 34.4 per cent.

**Seats Available for Direct Travel from France to Canada, Q4**

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	137,657	140,014
Per cent change	N/A	1.7

Source: OAG Worldwide

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## Summary Outlook for Q4 2003

*BO Monitor* participants indicated that overall travel from France is expected to decrease 6 per cent during the fourth quarter of 2003, compared with a year earlier. Leisure travel is expected do significantly worse than business travel (-7% versus -2%), led by a 9% drop in group packages. FIT bookings are looking slightly better than group bookings, with an expected fall of 6 per cent. *BO Monitor* participants identified the considerable effects of the SARS outbreak on the French outbound market as a major factor in the decline.

However, French tour operators surveyed by the CTC reported that FIT bookings represent the strongest sales trend for the fourth quarter 2003, and many stated that overall bookings were on par with the previous year. It is possible that this outlook is not reflected in the survey results of the *BO Monitor* participants due to the purpose of some French visits to Canada. Statistics Canada reported that the majority of French travellers to Canada in the fourth quarter of 2002 were visiting friends and relatives. If the same trend holds in the fourth quarter of this year, many French visitors may be staying with friends or family, rather than using the services of Canadian travel suppliers.



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# Germany Travel Outlook, Q4 2003

## Economic Overview

The massive job losses over the last two years are allowing the German government to more easily reform labour markets and introduce tax cuts. The fruits of their reforms have (already, they say) resulted in lower unemployment figures for April and May. The European Commission's economic sentiment indicator in Germany increased by 0.4 in June, which was the largest gain in Europe. While the sentiment index is still near a six year low, the increase suggests that the worst may be over and that a recovery is beginning. Nevertheless, the real returns of these reforms should only be felt next year. Real GDP in Germany is expected to grow by a minuscule 0.6 per cent this year and by 1.8 per cent in 2004.

## Tourism Trends

The Canadian Tourism Commission (CTC) conducted a Tourism Impact Survey in June, which indicated that SARS still posed a problem for the German travel market at that time, although the overall sense was that the outbreak was under control and would eventually disappear. Travellers did not anticipate a long-term disincentive to travel to Canada and as a result indicated that the damage from the negative SARS coverage is not expected to be permanent.

Of the German travellers who intended to take a long-haul pleasure trip in the next six months, 5 per cent mentioned Canada as their preferred destination, ranking Canada sixth behind Europe (33%), U.S. (19%), Asia (15%), tropical islands (8%) and Australia/New Zealand (6%). When asked whether the SARS outbreak would affect their likelihood of travelling to Canada, two-thirds of the long-haul pleasure travellers responded "not very likely," or "not at all likely."

According to the Australian Tourist Commission's (ATC) latest Germany Market Report, there was a noticeable decrease in SARS media coverage during the month of May, and tour operators experienced a steady increase of bookings for summer trips. However, overall bookings remain below last year's levels as a consequence of the slow economy, concerns about SARS and the lingering effects of the conflict in Iraq.

Munich Airport, the second-busiest in Germany after Frankfurt, launched operations from its new Terminal 2 facility on June 29. The new terminal doubles the airport's capacity to 50 million passengers annually. Lufthansa considers the new terminal to be integral to the continuing development of Munich as a major hub in its international network, claiming that the new facility is now the most modern and convenient terminal in Europe.



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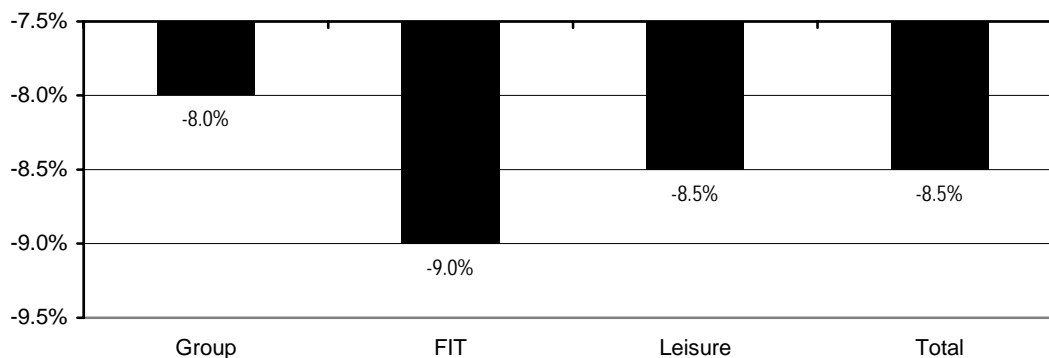
## Market Overview

The majority of German tour operators surveyed by the CTC reported that bookings for the fourth quarter of 2003 are 5 to 15 per cent higher than the period last year, although they expressed concern that the decline in direct air capacity was affecting their sales. However, the favourable exchange rate was indicated as having a positive effect on travel bookings to Canada.

Sales trends identified by the tour operators continued to be package tours of all types, including individual, group and couples' packages, as opposed to FIT bookings. B.C. and Alberta continued to be the most popular regions in Canada to visit, and the top-selling product cluster was touring, followed by nature, cities and resorts, and outdoor/sports.

## Destination Supplier–Receptive Agent Monitor, Business Outlook

**Short Term Outlook – Q4 2003**  
**Overnight Person-Trips from Germany to Canada**  
(per cent change from previous year – same quarter)



*Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute*

The outlook for overall travel from Germany in the fourth quarter of 2003—as indicated by *BO Monitor* participants—is for a decline of 8.5 per cent, compared with last year. This drop comes on top of a modest 0.2 per cent growth the fourth quarter of 2002. German independent (FIT) travel is expected to decline the most (down 9%) while group leisure travel will drop by 8 per cent.

*BO Monitor* participants suggest German travel to Alberta/B.C. will drop by 7 per cent, followed by a 7.5 per cent decline in the Atlantic region, and an 8.5 per cent decline for Ontario/Quebec. They also indicated that the German economy is negatively impacting the country's outbound market although an upturn in bookings may occur in the wake of a potential economic recovery later this year.

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## Germany-to-Canada Air Capacity, OAG Worldwide

According to the latest data from OAG, direct air capacity from Germany is expected to decrease marginally during the fourth quarter of 2003, compared to the fourth quarter of 2002. This is a change from the capacity increases seen in previous quarters, and may represent a slight constraint for German travellers wanting to visit Canada. According to OAG, Air Canada's share of direct air capacity during this period is 58.1 per cent.

### Seats Available for Direct Travel from the Germany to Canada, Q4

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	178,657	172,812
Per cent change	N/A	-3.3

*Source: OAG Worldwide*

## Summary Outlook for Q4 2003

Over the fourth quarter of 2003, *BO Monitor* participants suggest that overall travel from Germany will decline 8.5 per cent. Specifically, *BO Monitor* participants expect group and independent (FIT) travel to fall 8 and 9 per cent, respectively. Some participants noted that the sluggish German economy was hurting the outbound travel market.

Fortunately, there are positive signs that the worst may be over, and that an economic recovery is beginning. This could lead a modest rebound of the travel market in the later part of this year. Some tour operators are already reporting higher sales volumes to Canadian destinations for the fourth quarter, compared with last year, with a particular focus on package tours. Hopefully, the slight decrease in direct air capacity will not prove to be a significant impediment to overall travel bookings to Canada.



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# Italy Travel Outlook, Q4 2003

## Economic Overview

The Italian economy should muster 1.0 per cent growth in 2003 and double that rate in 2004. According to Consensus Economics, panelists in their survey have recently become progressively more pessimistic concerning the outlook for the Italian economy. The latest consumer confidence indicators from Italy do not bode well for future growth. The latest European Commission surveys indicate that the financial situation of households, general economic outlook, and unemployment outlooks fell in June. The business sector outlook is not optimistic either. Managers in Italy's industrial sector expect a significant fall in activity this year. According to the European Commission, only managers from Portugal and Finland were more pessimistic.

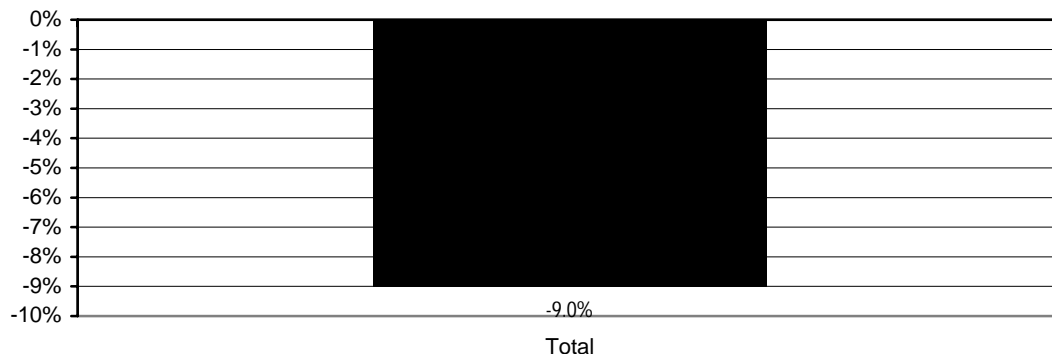
## Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in Italy reported that SARS took a huge toll on the travel industry there, fuelled by heavy media coverage of the outbreak. A televised warning by the Italian Ministry of Health against travelling to Canada and China resulted in an estimated bookings loss of 70 to 80 per cent, and it was expected that the market would not recover any time soon.

The Australian Tourist Commission reported in June that consumer watchdog associations were noting that a record number of Italians plan to stay at home this summer due to the rising cost of living. Fortunately, the fear of SARS seemed to be subsiding and consumer confidence in long-haul travel was growing. The report indicated that bookings to the U.S. were increasing, bolstered by the declining value of the U.S. dollar.

## Destination Supplier–Receptive Agent Monitor, Business Outlook

**Short Term Outlook – Q4 2003**  
**Overnight Person-Trips from Italy to Canada**  
(per cent change from previous year – same quarter)



*Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute*

The outlook for overall travel from Italy in the fourth quarter of 2003—as indicated by *BO Monitor* participants—is for a decline of 9 per cent in the number of travellers, compared with last year. This comes on top of significant growth in the fourth quarter of 2002, which saw a sharp increase of 45.7 per cent. Unfortunately, not enough responses were obtained to break down travel segments and still maintain confidentiality.

## Italy-to-Canada Air Capacity, OAG Worldwide

Direct air capacity to Canada is expected to improve by 2.9 per cent during the fourth quarter of 2003, compared with the fourth quarter a year ago. This follows large planned increases during the second and third quarters of 2003. If these increases hold, we do not expect air capacity to represent a constraint for travel to Canada during the fourth quarter of 2003. According to OAG, Air Canada’s share of direct air capacity during this period is 54.7 per cent.

**Seats Available for Direct Travel from Italy to Canada, Q4**

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	33,160	34,136
Per cent change	N/A	2.9

*Source: OAG Worldwide.*

## Summary Outlook for Q4 2003

Unfortunately, *BO Monitor* participants indicated that travel to Canada from Italy is expected to experience a decline of 9 per cent during the fourth quarter of 2003, compared with 2002, although this decrease comes on top of a 45.7 per cent rise in travel seen in the fourth quarter of 2002. However, reports from the CTC’s foreign office in Italy indicate that the Italian outbound market experienced a particularly negative reaction to the SARS outbreak, which severely impacted bookings to Canada. Pessimism about the Italian economy and declines in consumer confidence could also pose problems for the Italian travel market.

That being said, there is still cause for optimism that the outlook for this market will improve. Confidence in long-haul travel seems to be building, and U.S. bookings have already begun increasing, bolstered by the appreciating value of the euro against the declining U.S. dollar.

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# Netherlands Outlook, Q4 2003

## Economic Overview

The Netherlands is in the midst of a recession as the weakness in the German economy, the Netherlands' largest trading partner, has had a negative impact on the manufacturing and hospitality sectors. Gross fixed investment—a measure of confidence in the Dutch economy—should decline for a third consecutive year this year. As the rest of Europe picks up next year, so too should the Netherlands. According to Consensus Forecasts, GDP should increase by 1.6 per cent—the strongest rate of growth in four years. The European Commission's latest economic sentiment indicator out of the Netherlands fell significantly in June. Industrial confidence is historically low and has recently been trending lower.

## Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in the Netherlands reported that travel intentions among Dutch consumers were showing a definite shift towards closer-to-home destinations. A recent Continues Holiday Research report indicated that 76 per cent of Dutch people surveyed in late May were planning to take a trip during the summer, although interest in domestic trips had increased by 12 per cent compared with the same survey in January. France and Spain were the top foreign locations chosen (at 23% and 12%, respectively) with U.S./Canada much lower on the list (3%).

KLM Royal Dutch Airlines reported in June that the SARS epidemic had reduced its passenger traffic on key Asian routes by more than a third (35%). This drop was particularly devastating, considering that of all European carriers, KLM has the largest exposure to Asian destinations. The airline subsequently announced in July that it was considering a further 1,500 job cuts in addition to the 3,000 previously announced. The new cuts would bring the total job loss to 4,500 or 13 per cent of the airline's total workforce.

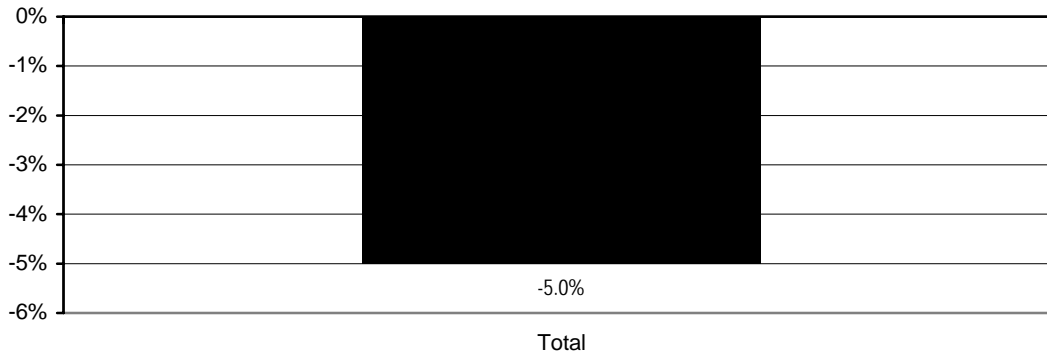
## Market Overview

The consensus among tour operators surveyed by the CTC suggests that sales for the fourth quarter of 2003 will be up an average of 13 per cent compared with last year. Air capacity was not identified as representing a problem in selling Canadian products during this period and it was indicated that the exchange rate of the euro versus the Canadian dollar was not expected to affect sales.

Trends identified as selling well by Dutch tour operators were couples with a package, as well as individuals travelling with or without packages. The tour operators also indicated that interest was focused on British Columbia (37% of all sales), Alberta (30% of all sales), Ontario (20% of all sales) and Quebec (12% of all sales).

## Destination Supplier–Receptive Agent Monitor, Business Outlook

### Short Term Outlook – Q4 2003 Overnight Person-Trips from the Netherlands to Canada (per cent change from previous year – same quarter)



Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from the Netherlands in the fourth quarter of 2003—as indicated by *BO Monitor* participants—is for a decline of 5 per cent, compared with last year. This follows a 2.9 per cent growth posted in the fourth quarter of 2002. Unfortunately there were not enough responses to break down bookings by segments to ensure confidentiality.

## Netherlands-to-Canada Air Capacity, OAG Worldwide

According to OAG, direct air capacity is expected to decrease significantly during the fourth quarter of 2003. The number of direct seats to Canada is expected to drop by 25.5 per cent, although capacity in the fourth quarter of 2002 was up 42.4 per cent from 2001. The fourth quarter 2003 decrease could represent a significant impediment to travel from the Netherlands to Canada in that quarter. According to OAG, Air Canada’s share of direct air capacity during this period is 14.3 per cent, while KLM-Royal Dutch Airline’s share is 85.8 per cent.

### Seats Available for Direct Travel from the Netherlands to Canada, Q4

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	97,475	72,573
Per cent change	N/A	-25.5

Source: OAG Worldwide

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## Summary Outlook for Q4 2003

*BO Monitor* participants anticipate that overall travel from the Netherlands will decrease by 5 per cent during the fourth quarter of 2003. However, Dutch tour operators surveyed by the CTC reported that some travel packages are selling well, particularly those for individuals and couples. The most popular Canadian destinations continue to be British Columbia and Alberta.

According to these tour operators, the considerable decrease in direct air capacity planned for the fourth quarter has not been a hindrance in selling Canadian products for that period, but it potentially could pose a problem. KLM, the airline with an 85.5 per cent share of air capacity for that period, is currently undergoing operational cutbacks, which could further affect its long-haul network.





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# Japan Travel Outlook, Q4 2003

## Economic Overview

The prospects for the Japanese economy look slightly brighter. In a manner similar to what is occurring in the United States, the Japanese stock market is moving up, and it appears that the economy is at least growing, albeit at a very weak pace. Looking forward, the second half of this year and early 2004 should see a rebound in economic activity. A pickup in U.S. economic activity and a recovery of Asian demand from the SARS-depressed second quarter will lead to rapid acceleration in output. According to AC Nielson, the Japanese continue to spend money on non-essentials, like car, property, stocks/shares and relatively high priced electric appliances. Real GDP is expected to increase by 0.8 per cent this year and again in 2004. While this is far from ideal growth, it does represent a slight improvement compared with the growth recorded in the 2001-2002 period.

## Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in Japan reported that throughout the SARS outbreak, outbound travel from Japan declined nearly 50 per cent. Agents reported a slight increase in bookings for destinations that were considered SARS-free, and despite the implication of Canada in the SARS outbreak, it was expected that Japanese tourists would resume visiting Canada once the outbreak was considered to be gone.

According to a Tourism Impact Study conducted by the CTC in early June, SARS appeared to be posing a long-term deterrent for a substantial number of Japanese travellers in visiting Canada. Of the Japanese people polled, one in two (48%) considered it likely or very likely that their probability of travelling to Canada would be affected due to the SARS outbreak. There also appeared to be a general sentiment that SARS was not totally under control, as only one-quarter of Japanese travellers somewhat or strongly agreed that Canada had succeeded in controlling the disease.

The Australian Tourist Commission (ATC) reported in June that SARS continued to negatively affect the entire overseas market, as many Japanese consumers were afraid to enter airport buildings, let alone board international aircraft. This was true even for destinations that were SARS-free. However, general news coverage on SARS was decreasing, and the beginning of sustainable recovery in the market was evident. Booking lead times were reported to be as short as one week. Not surprisingly, this made booking predictions quite difficult.

According to a recent survey by JTB Corp., Japan's top travel agency, the number of Japanese intending to travel overseas this summer dropped by 24.7 per cent compared with a year earlier. This is the largest decline the agency has seen since it first began conducting the survey in 1969. Meanwhile, the overall number of Japanese travelling this summer was expected to increase 0.3 per cent, with the number of travellers staying in Japan up by 1.1 per cent. Looking further ahead, JTB estimated that the total number of Japanese travelling abroad this year would be 13 – 13.5 million, a 20 per cent drop from 2002.

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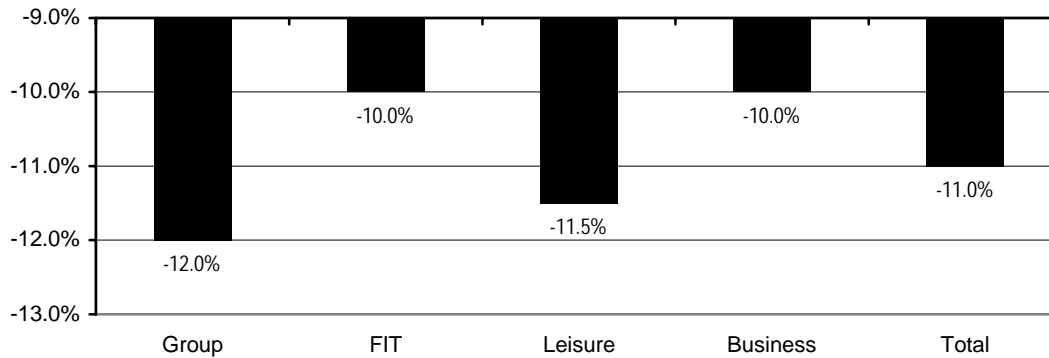
## Market Overview

According to Japanese tour operators surveyed by the CTC, sales of Canadian products for the fourth quarter of 2003 are down 15 to 30 per cent compared with the same quarter last year. All respondents agreed that air capacity for this period was representing a problem in selling travel products to Canada, and that the exchange rate was expected to negatively affect sales, because of the weaker value of the yen.

No particular sales trends were identified, although operators reported that Alberta continued to be the most popular province to visit (30% of all sales), followed by Ontario, British Columbia and Northwest Territories (each representing 20% of all sales), and Quebec (10%). Finally, Japanese tour operators reported that nature travel had replaced touring as the number one selling product cluster, while touring moved down to second place, followed by cities and resorts in third.

## Destination Supplier–Receptive Agent Monitor, Business Outlook

**Short Term Outlook – Q4 2003**  
**Overnight Person-Trips from Japan to Canada**  
(per cent change from previous year – same quarter)



*Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute*

The outlook for overall travel from Japan in the fourth quarter of 2003—as indicated by *BO Monitor* participants—is for a significant drop of 11 per cent, compared with last year. This decline comes on top of a substantial 79.6 per cent rise in growth during the fourth quarter of 2002 compared with 2001. In 2003, group leisure travel is expected to lead the decline, experiencing a 12 per cent drop, while independent (FIT) leisure travel falls 10 per cent. Business travel (-10%) is expected to decline slightly less significantly than leisure travel (-11.5%).

Of the three Canadian regions reported on by *BO Monitor* participants, Atlantic Canada is expected to see the largest drop (-15%) while Alberta/B.C. and Ontario/Quebec decline 11 per cent and 10 per cent, respectively. *BO Monitor* participants commented that the lingering effects of the SARS outbreak as well as the depressed Japanese economy have each played a role in the decline of travel projected for this period.

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## Japan-to-Canada Air Capacity, OAG Worldwide

Direct air capacity from Japan for the fourth quarter 2003 is expected to decline 12.9 per cent. This drop follows a year-long trend of direct air capacity increases, and it could pose a problem for Japanese travellers wanting to visit Canada during that period. According to OAG, Air Canada's share of direct air capacity during this period is 65.4 per cent.

**Seats Available for Direct Travel from Japan to Canada, Q4**

	<b>2002 (DIRECT)</b>	<b>2003 EST. (DIRECT)</b>
Non-stop seats available	121,106	105,430
Per cent change	N/A	-12.9

*Source: OAG Worldwide.*

## Summary Outlook for Q4

According to *BO Monitor* participants, overall travel from Japan is expected to decrease by 11 per cent in the fourth quarter of 2003, compared with a year earlier, led by a 12 per cent drop in group travel. Supporting this decline in booking expectations are reports by tour operators in Japan indicating that they anticipate bookings for this period to be down anywhere from 15 to 30 per cent. A 12.9 per cent decrease in direct air capacity during this period could further impede travel to Canada from Japan.

Unfortunately, according to a recent Tourism Impact Study by the CTC, the SARS outbreak has impacted the Japanese market more than most. Almost half of the Japanese polled (48%) indicated that their likelihood of visiting Canada had been negatively affected due to SARS, and only one-quarter agreed that Canada had succeeded in controlling the disease. It appears that SARS and, to a lesser extent, the war in Iraq have taken their toll on Japanese travel intentions. It is estimated that the overall outbound travel market in Japan will decrease by 20 per cent in 2003.



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# Taiwan Outlook, Q4 2003

## Economic Overview

The Taiwanese economy has also been hurt by a slowdown in regional trade. The relocation of manufacturers to mainland China is driving the unemployment rate higher and keeping spending moderate. The latest Consensus Economics survey suggests that the Taiwanese economy should grow by 2.7 per cent this year and 3.9 per cent in 2004. Financial markets are also predicting a rebound: Taiwan's stock market in early July closed at its highest level in more than 11 months, and technology stocks continue to surge on bullish sentiment for a second-half economic turnaround. According to a June survey by AC Nielson, Taiwan consumer confidence fell by 15 per cent.

## Tourism Trends

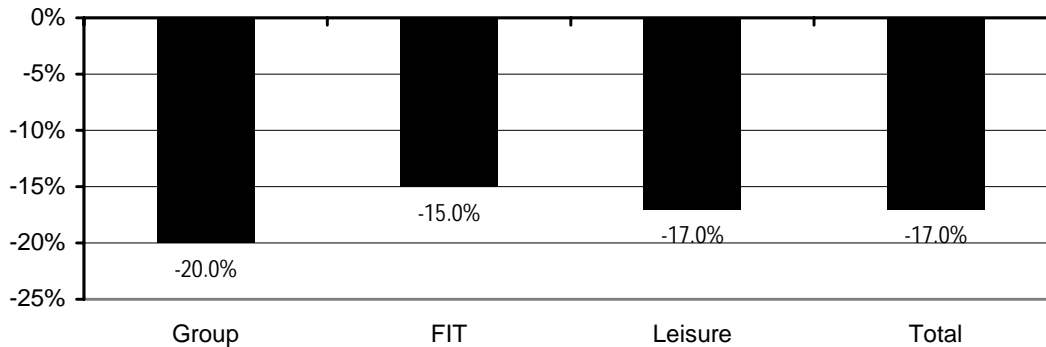
The Canadian Tourism Commission's foreign office in Taiwan reported that airlines and travel agencies were offering many airfare and package specials in an effort to stimulate immediate outbound and domestic travel. For example, EVA Airways launched an intensive advertising campaign for summer family bookings to short and long-haul destinations, including Canada, and China Airlines was expected to follow suit.

The Australian Tourist Commission reported that total outbound trips from Taiwan for the first five months of 2003 declined 35.8 per cent compared with a year earlier. However, consumer confidence began slowly lifting in early June, stimulated by sales promotions in the retail and travel sectors—low prices seemed to be the key stimulator in the post-SARS era. Advance bookings for July were picking up, and travel agents estimated that the overall outbound leisure market would improve during July, reaching 60 per cent of the booking levels seen in 2002.

In mid-June, when the World Health Organization lifted its travel advisory against Taiwan, the Taiwanese government announced it would inject up to US \$8.65 million into the ailing tourism industry, as part of a US\$1.44 billion SARS-relief fund set up for the country. It is estimated that the SARS outbreak caused an 85 per cent drop in revenue for Taiwan's travel industry. The tourism assistance plan included local media advertising, overseas publicity campaigns and free tours for foreign visitors. However, the government said it intended to rejuvenate its domestic tourism market before reaching out to international visitors.

## Destination Supplier–Receptive Agent Monitor, Business Outlook

**Short Term Outlook – Q4 2003**  
**Overnight Person-Trips from Taiwan to Canada**  
 (per cent change from previous year – same quarter)



Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from Taiwan in the fourth quarter of 2003—as indicated by *BO Monitor* participants—is for a decline of 17 per cent, compared with last year. This expected drop is a marked contrast to the fourth quarter of 2002, when visits from Taiwan were up 36.7 per cent compared with 2001. For 2003, *BO Monitor* respondents were more pessimistic regarding expectations for group leisure travel (-20%), than independent (FIT) leisure travel.

## Taiwan-to-Canada Air Capacity, OAG Worldwide

Similar to a decline expected during the third quarter of 2003, air capacity is expected to fall sharply again (-15.1%) during the fourth quarter of 2003, compared with a year earlier. This decline may continue to represent a significant constraint for travel to Canada from Taiwan during the fourth quarter. According to OAG, Air Canada does not presently account for any share of the direct air capacity during this period.

**Seats Available for Direct Travel from Taiwan to Canada, Q4**

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	59,504	50,493
Per cent change	N/A	-15.1

Source: OAG Worldwide.

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## Summary Outlook for Q4 2003

Unfortunately, the outlook for travel from Taiwan in the fourth quarter of 2003 is quite pessimistic. After experiencing a growth of 36.7 per cent during the fourth quarter of 2002 compared with 2001, *BO Monitor* participants expect overall leisure travel from Taiwan to decline 17 per cent during the fourth quarter of 2003. While group leisure travel is expected to fare the worst (-20%), independent (FIT) leisure travel is expected to plummet as well (-15%). A recent fall in Taiwanese consumer confidence was mitigated by sales promotions in the retail and travel sectors, indicating that low prices can help propel a turnaround in the outbound travel market. However, in the wake of the crippling SARS outbreak, the Taiwanese government and tourism industry are putting a great deal of effort into improving their own domestic travel market first.





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# South Korea Travel Outlook, Q4 2003

## Economic Overview

The South Korean economy is expected to slow this year from 6.3 in 2002 to 3.9 per cent. The war in Iraq, the North Korean nuclear program, SARS, accounting scandals and a credit crunch that is gripping household spending have all weighed on the South Korean economy, and the SARS epidemic has really hurt the trade sector. This slowdown, coupled with a less confident consumer, has hurt growth. May sales at South Korean department stores shrank for the fourth-consecutive month and are likely to continue to fall in June. Looking ahead, as the threat of SARS recedes the trade sector should begin to pick up again. The latest (June 2003) Consensus Forecasts outlook suggests that the South Korean economy will expand by 5.3 per cent in 2004.

## Travel Trends

The Canadian Tourism Commission's foreign office in Korea reported that Korean visits to Canada dropped 5.6 per cent in the first four months of this year, compared with the same period a year earlier. Most of the decline was due to the SARS outbreak, as visitor numbers in April alone dropped 28.6 per cent. Fortunately, tour bookings were clearly recovering in early June, boosted by cheaper group packages offered by tour operators and airlines in an attempt to stimulate a faster recovery for the tourism industry.

Korean Airlines reported in July that it had resumed normal operations on its network since the announcement by the World Health Organization that SARS has been contained. As a result, the airline reported it had seen a recovery in traffic for all routes except for China. In fact, business and leisure traffic in June was down only 0.9 per cent, compared with June 2002, although capacity was reduced by 10 per cent. The airline also stated it was not forced to lay off any staff during the SARS outbreak and all new aircraft deliveries are on schedule.

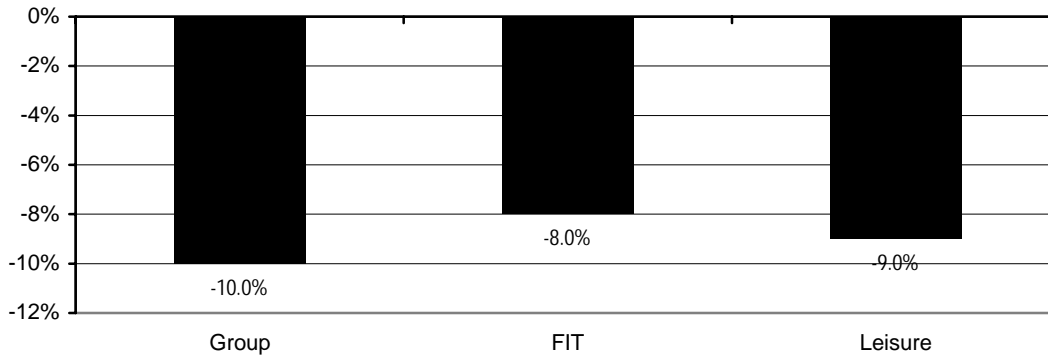
## Market Overview

According to tour operators in Korea surveyed by the CTC, sales of fall products for Canada are expected to be up an average of 20 per cent in the 4<sup>th</sup> quarter of 2003. The strongest sales trend for this period appears to be travel packages for both individuals and groups. The operators also reported that air capacity and the exchange rate were both constraints in selling Canadian products for this period.

The most popular Canadian regions for the fourth quarter are British Columbia (representing 45% of all sales to Canada), Ontario (35%), and Alberta (15%), while the Maritime provinces represent regions of potential and are currently under development. The best-selling product cluster is touring, followed by nature, cities and resorts, winter, and outdoor/sports.

## Destination Supplier–Receptive Agent Monitor, Business Outlook

**Short Term Outlook – Q4 2003**  
**Overnight Person-Trips from South Korea to Canada**  
 (per cent change from previous year – same quarter)



Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from South Korea in the fourth quarter of 2003—as indicated by *BO Monitor* participants—is for a decline of 9 per cent, compared with last year. This follows a growth of 21.2 per cent in the fourth quarter of 2002, compared to 2001. It is expected that group leisure travel will decrease more than independent (FIT) travel (-10% versus -8%, respectively).

*BO Monitor* participants also indicated that Ontario/Quebec and Alberta/British Columbia are each expected to experience a decline in Korean visits of 9 per cent during the fourth quarter of 2003.

## South Korea-to-Canada Air Capacity, OAG Worldwide

Direct air capacity during the fourth quarter of 2003 is expected to increase by a solid 9.8 per cent compared with a year earlier, similar to the gains in the previous quarter. According to OAG, Air Canada’s share of direct air capacity during this period is 32.5 per cent.

**Seats Available for Direct Travel from South Korea to Canada, Q4**

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	53,989	59,280
Per cent change	N/A	9.8

Source: OAG Worldwide.

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## Summary Outlook for Q4 2003

*BO Monitor* participants anticipate that overall leisure travel from South Korea will decrease by 9 per cent during the fourth quarter of 2003, compared with a year ago. Group travel (-10%) is expected to fare worse than independent (FIT) travel (-8%). In line with these expectations is the fact that the Korean economy and consumer confidence have both been weakened by SARS, the war in Iraq, and other internal problems. However, Korean tour operators report that that sales of Canadian travel packages are doing well, perhaps signaling that Korean visits may not be as low as anticipated. Another positive indicator is the increase in air capacity for that quarter.



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# Hong Kong Outlook, Q4 2003

## Economic Overview

The Hong Kong economic outlook is mixed. International trade is doing well but consumer and investment spending remains rather weak. Prospects for economic growth in Hong Kong should improve in 2003 as exports to China expand. According to Consensus Forecasts, consumption expenditures are expected to post a modest rebound of 1.4 per cent growth in 2003, after falling 1.2 per cent in 2002. The overall economy should fare even better, growing by 2.9 per cent in 2003.

## Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in Hong Kong reported that since the travel advisory against Hong Kong was lifted in late May, the community has responded with many advertising and marketing campaigns aimed at revitalizing the tourism industry. The "We Love Hong Kong" campaign has focused on improving local tourism as well as outbound travel, involving organizations from all tourism sectors. Air Canada joined the campaign, offering 500 tickets from Hong Kong to Vancouver and Toronto for CDN \$570 and CDN \$755, respectively.

Since the World Health Organization lifted its Hong Kong Travel advisory at the end of May, Cathay Pacific Airways has seen some increase in passenger traffic, although it reported in June that it was still carrying only about a third of the travellers as it was the same time last year. The airline also announced that it would give away 10,000 free tickets to help support the recovery of Hong Kong's devastated tourism trade. By late July, Cathay Pacific announced it would operate 90 per cent of its schedule in August, with U.S. and European flights restored to pre-SARS levels by the end of September.

In the April to June quarter of this year, the overall unemployment rate in Hong Kong surged to a record high of 8.6 per cent, with 300,000 people out of work. The Australian Tourist Commission (ATC) reported in June that the direct impact of SARS on Hong Kong's tourism industry is estimated at CDN \$1.8 billion with a direct loss of 27,340 jobs.

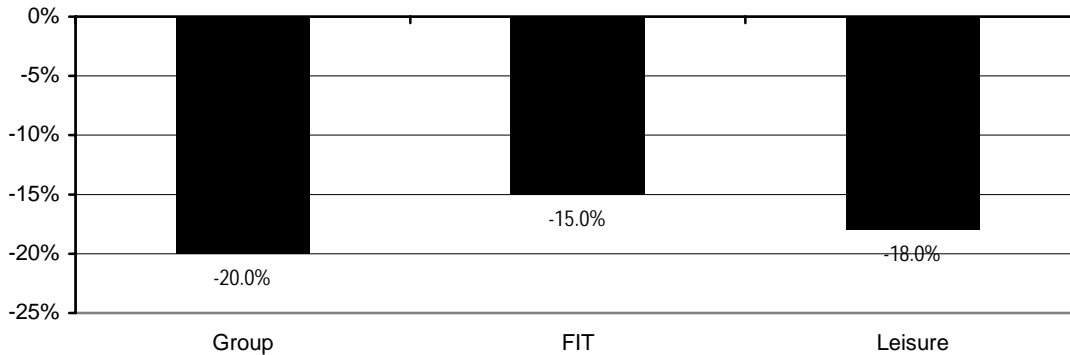
## Market Overview

According to Hong Kong tour operators surveyed by the CTC, sales of Canadian products are expected to be down 9 per cent in the fourth quarter of 2003, compared with 2002. All operators agreed that air capacity to Canada represented a problem in selling Canadian products for this period. On the other hand, the exchange rate did not appear to have any effect on sales.

Current sales trends identified by Hong Kong tour operators included group travel packages, as well as couples travelling with or without packages. The most popular Canadian regions for travel in the fourth quarter are British Columbia (representing 45% of all sales), Ontario (30%), Alberta (15%) and Quebec (3%).

## Destination Supplier–Receptive Agent Monitor, Business Outlook

**Short Term Outlook – Q4 2003**  
**Overnight Person-Trips from Hong Kong to Canada**  
 (per cent change from previous year – same quarter)



Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from Hong Kong in the fourth quarter of 2003—as indicated by BO Monitor participants—is for a decline of 18 per cent, compared with last year. Group travel is expected to drop by 20 per cent, while independent (FIT) travel is expected to be down by 15 per cent. In the fourth quarter of 2002, the number of Hong Kong visits were up by 18.6 per cent compared with 2001.

## Hong Kong-to-Canada Air Capacity, OAG Worldwide

Direct air capacity is expected to decrease 6.5 per cent during the fourth quarter of 2003, compared with the previous year. According to OAG, Air Canada’s share of direct air capacity during this period is 37.5 per cent.

**Seats Available for Direct Travel from Hong Kong to Canada, Q4**

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	127,202	118,898
Per cent change	N/A	-6.5

Source: OAG Worldwide.

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## Summary Outlook for Q4 2003

According to *BO Monitor* participants, overall travel from Hong Kong is expected to fall by 18 per cent during the fourth quarter of 2003, compared with 2002. This decline follows an 18.6 per cent growth in travel seen in the fourth quarter of 2002, indicating that travel from Hong Kong is expected to drop back to those levels seen just after 9/11. The region's tourism industry was devastated by the SARS outbreak that occurred there, resulting in record-high levels of unemployment. However, many airlines are offering deep discounts to stimulate air travel to and from Hong Kong, and the region's overall economy is expected improve as the year progresses.





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# China Travel Outlook, Q4 2003

## Economic Overview

In the first quarter of this year, the Chinese economy expanded by a whopping 10 per cent (year-over-year). This rate of growth will not be repeated in the second and third quarter of this year because of the SARS outbreak. The government faces a difficult challenge in controlling the spread of the disease and has implemented drastic measures to contain the virus. In a bid to deter mass travel, government authorities reduced the annual week-long May holiday to just one day. However, SARS is already reducing economic activity, especially in the tourism-related sectors such as hotels and restaurants. Domestic consumption is also being undermined by concerns about the disease and trade flows will undoubtedly be affected as the year unfolds. In May, the Guangzhou Spring trade fair saw foreign orders drop sharply.

## Tourism Trends

According to a forecast by MasterCard International and the Pacific Asia Travel Association, the number of China's outbound tourists is predicted to grow by 18 per cent to 6.3 million in the second half of 2003, compared to the previous year. Hong Kong, Indonesia and Thailand will be the key beneficiaries of this growth, as half of the Chinese tourists projected to travel during this period are expected to choose one of those three destinations.

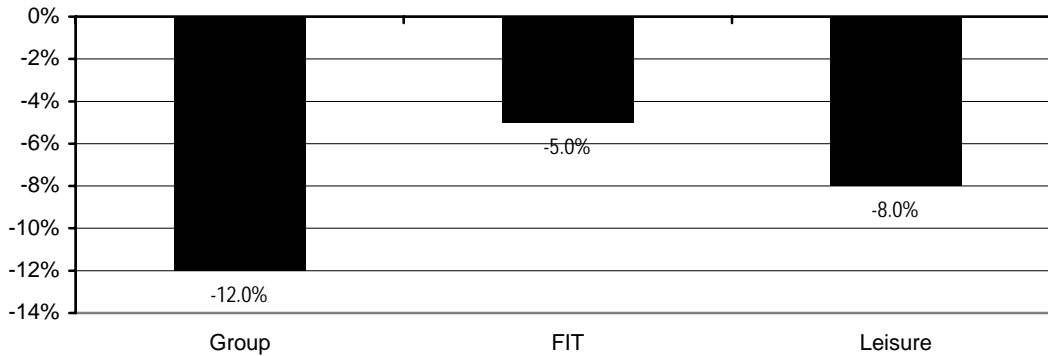
The Australian Tourism Commission reported in June that the Chinese government stopped all tourism activities during the SARS outbreak to prevent the spread of the disease. Some domestic and inbound travel was expected to resume by July, but estimates regarding when outbound travel would resume were less certain. In May, travel agents were instructed to close their shops and send staff on leave, with or without pay. At that time, the World Travel & Tourism Council reported that the direct and indirect impact of SARS on China's travel and tourism industry was expected to be CDN \$28.6 billion, with a loss of 6.8 million jobs.

China Southern Airlines reported that it suffered an 85 per cent decline in May passenger traffic due to the impact of SARS. The airline admitted that it began seeing a decrease in passenger numbers in March, when the outbreak first occurred, and that during April, the drop-off became much more dramatic. The airline saw a visible recovery in late May, when the World Health Organization lifted its travel advisory to Guangdong province, and it expected to see a modest improvement in June.

In July, China's flag carrier, Air China, merged with two smaller carriers, China Southwest and Zhejiang Airlines, as part of a major consolidation program of China's airline industry (planned before the SARS outbreak occurred). Air China now has a 26 per cent share of the Chinese market. The restructuring program is designed to create three major airline groups based around Air China, China Southern and China Eastern, all of whom have already absorbed several smaller carriers.

## Destination Supplier–Receptive Agent Monitor, Business Outlook

**Short Term Outlook – Q4 2003**  
**Overnight Person-Trips from China to Canada**  
(per cent change from previous year – same quarter)



Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall travel from China in the fourth quarter of 2003—as indicated by BO Monitor participants—is for a decline of 8 per cent, compared with last year. BO Monitor participants expect group leisure travel to post a much higher loss than independent (FIT) travel (-12% versus -5%). During the fourth quarter of 2002, travel from China was up 30.9 per cent, compared with 2001.

BO Monitor participants anticipate that Ontario/Quebec will see a drop of 10 per cent in the number of visitors from China in the fourth quarter of 2003, while travel to Alberta/British Columbia is expected to fall by 5 per cent.

## China to Canada Air Capacity, OAG Worldwide

Direct air capacity from China is expected to continue to increase by 7.7 per cent during the fourth quarter of 2003, compared with 2002. According to OAG, Air Canada’s share of direct air capacity during this period is 67.8 per cent.

**Seats Available for Direct Travel from China to Canada, Q4**

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	52,854	56,928
Per cent change	N/A	7.7

Source: OAG Worldwide.

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## Summary Outlook for Q4 2003

*BO Monitor* participants anticipate overall travel from China will decrease by 8 per cent during the fourth quarter of 2003, after posting significant growth during the fourth quarter of 2002. *BO Monitor* participants did note that the group leisure market is expected to decline significantly more than the independent (FIT) leisure market. The projected fall in travel is disappointing, but the anticipated decline is smaller than any other Asian country included in this report. Although the SARS outbreak had a massive impact on China's tourism industry, the country's robust economy mitigated the crippling financial effects of the disease, a positive factor in the potential rebound of the Chinese travel market.



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# Australia Travel Outlook, Q4 2003

## Economic Overview

A recent AC Nielson study (June 2003) found that 33 per cent of Australian consumers expect a recovery within a year, 9 per cent less than in December last year. The increased caution among consumers in Australia is having an impact on their spending patterns. Consumers are deferring the purchase of non-essential items, and are putting their money into savings and fixed term deposit accounts once they have covered all of their living expenses. The impact of SARS will, however, not significantly dampen Australia's economic prospects in the short-term. Overall real GDP is expected to increase by 3.0 per cent this year and 3.6 per cent in 2004.

## Tourism Trends

The Canadian Tourism Commission's (CTC) foreign office in Australia reported that the real estate market in Australia continues to boom, encouraging many Australians to spend their money in that sector rather than travel. Still, a recent Roy Morgan survey found that 60 per cent of Australians intend to take a holiday either domestically or overseas in the next 12 months. It was reported that SARS and/or the war in Iraq did not affect the travel plans of the vast majority of travellers (84%), and most of the travellers who did change their plans because of world events, changed their destination rather than canceling their trip.

However, the CTC further reported that the lingering effects of SARS, the war in Iraq, the October 2002 Bali bombings, as well as economic and other factors, have taken their toll on the Australian outbound travel market. A long-term forecast by the Tourism Forecasting Council indicated that international travel is expected to decline by 4.2 per cent, to 3.3 million departures in 2003, before bouncing back to 3.6 million in 2004.

At the end of May, Qantas released its March passenger figures, which reflected the effects of the war in Iraq and the onset of SARS. These figures indicated that international traffic fell by almost 11 per cent, compared with the previous year, while capacity remained stable. By July, capacity in the carrier's international network had fallen by 20 per cent because of the SARS outbreak. Qantas reported at that time that its international traffic was picking up although it was still not ready to increase capacity.

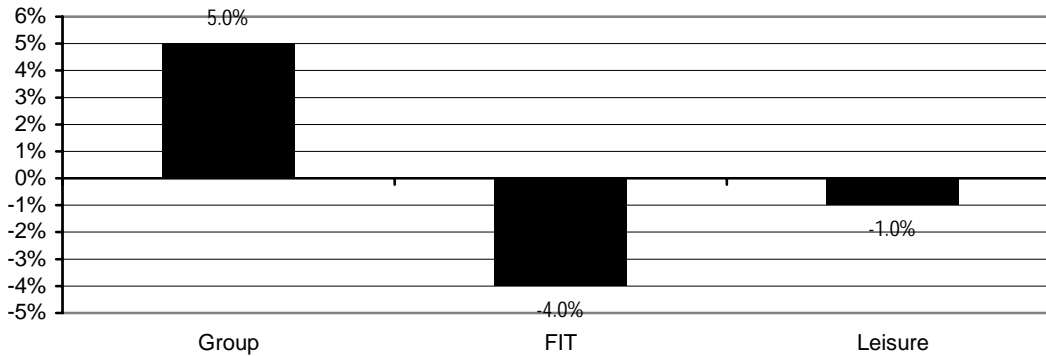
## Market Overview

The consensus among Australian tour operators surveyed suggests overall bookings to Canada for the fourth quarter will be up an average of 5 per cent compared with last year. However, once again, tour operators stated that air capacity was a constraint for travel to Canada and is affecting their sales for the fourth quarter. The exchange rate is expected to have a no effect on sales to Canada.

According to the tour operators, the strongest sales trend for the fourth quarter is travel packages for couples, and the most popular Canadian region is British Columbia, which represents 82 per cent of all sales to Canada. Alberta followed in second place, with 18 per cent of sales.

## Destination Supplier–Receptive Agent Monitor, Business Outlook

### Short Term Outlook – Q4 2003 Overnight Person-Trips from Australia to Canada (per cent change from previous year – same quarter)



Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute

The outlook for overall leisure travel from Australia in the fourth quarter of 2003—as indicated by BO Monitor participants—is for a small decline of 1 per cent, compared with last year. Independent leisure travel (FIT) is expected to decrease considerably (-4%) while group travel is predicted to post a growth of 5 per cent. In the fourth quarter of 2002, travel from Australia grew by 16.9 per cent, compared with 2001.

## Australia to Canada Air Capacity, OAG Worldwide

Unfortunately, total air capacity from Australia (including both direct and non-direct flights) is expected to continue declining during the fourth quarter of 2003, although much less sharply than the previous quarter. The marginal 1.1 per cent fourth quarter 2003 decrease may hinder travel growth from Australia during that period. According to OAG, Air Canada currently accounts for 100 per cent of the share of direct and non-direct air capacity during this quarter.

### Seats Available for Stop-Over Travel from Australia to Canada, Q4

	2002 (DIRECT)	2003 EST. (DIRECT)
Non-stop seats available	19,504	19,292
Per cent change	N/A	-1.1

Source: OAG Worldwide.

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## Summary Outlook for Q4 2003

According to *BO Monitor* participants, overall leisure travel from Australia is expected to decrease 1 per cent during the fourth quarter of 2003, led by a decrease in independent (FIT) leisure travel (down 4%). On the other hand, group leisure travel is expected to expand by 5 per cent. Further, tour operators surveyed by the CTC suggest their overall bookings for the fourth quarter will be better than last year. Australians' usual enthusiasm for international travel has been somewhat muted by world events over the past year, but signs of fourth quarter growth in certain segments of the Australian travel market is encouraging news for Canadian travel suppliers. The only other impediment to potential growth could be the expected declines in air capacity.





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# New Zealand Travel Outlook, Q4 2003

## Economic Overview

According to Consensus Forecasts, New Zealand's economy is expected to grow by 2.7 per cent this year and next, and thus slightly outperform the Asia-Pacific average. Growth this year has been hurt by the reduction in regional trade as a result of SARS. The relative value of the New Zealand dollar has risen to uncomfortably high levels, which prompted a central bank interest rate cut. The interest rate cut as well as a relative low unemployment rate should help support consumer spending this year. According to AC Nielson, 38 per cent of Kiwi consumers expect a recovery within a year, 6 per cent less than in December last year. AC Nielson goes on to report that, in the Pacific, there's a greater trend towards reducing debt—19 per cent of Kiwis have been using their spare cash to reduce credit card, personal loan and housing loan balances, compared to a regional average of 10 per cent.

## Tourism Trends

Tourism New Zealand recently reported that international activity to and from New Zealand is expected to increase as post-SARS recovery of the airline industry progresses. The stronger New Zealand dollar was expected to improve the performance of the outbound market, which represents about 45 per cent of the international air traffic in and out of the country. The North American and UK/European markets were expected to benefit the most from the more favourable exchange rate.

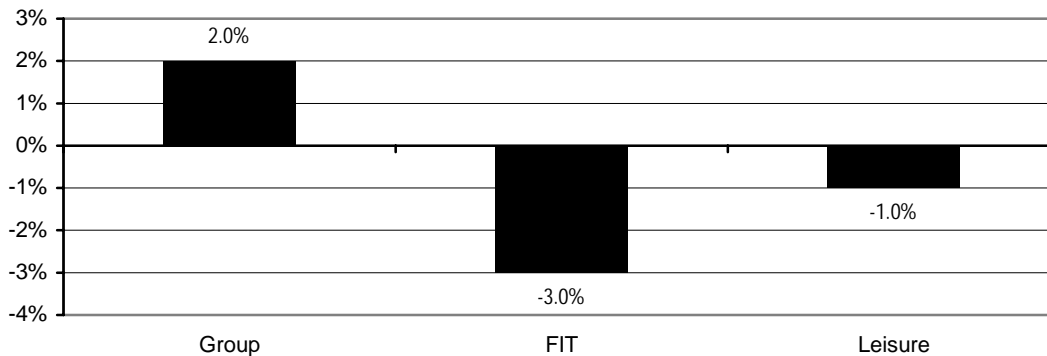
The Australian Tourist Commission reported in June that the New Zealand business travel market has suffered more from the SARS outbreak than the leisure travel market. Corporate bookings declined 20 to 30 per cent during the outbreak, with business travellers particularly reluctant to travel to Asian and European destinations.

Meanwhile, Air New Zealand (ANZ) Chairman, John Palmer, recently stated that ANZ could become a purely domestic airline if competition authorities in New Zealand and Australia do not approve its proposed merger with Qantas Airways. According to Palmer, ANZ's domestic side is on sound footing but its international business, which accounts for three-quarters of its revenues and assets, is not. Palmer further stated that ANZ needed to find ways to expand its international business, which in his opinion, depended on the partnership with Qantas. Qantas is attempting to secure a 22.5 per cent stake in ANZ.

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## Destination Supplier–Receptive Agent Monitor, Business Outlook

Short Term Outlook – Q4 2003  
Overnight Person-Trips from New Zealand to Canada  
(per cent change from previous year – same quarter)



Source: Q4 2003 Business Outlook System, Canadian Tourism Research Institute

The outlook for New Zealand leisure travel to Canada—as indicated by *BO Monitor* respondents—is for a negative growth of –1 per cent during the fourth quarter of 2003, compared with 2002. *BO Monitor* respondents indicated that independent (FIT) leisure travel is expected to drop by 3 per cent while group travel posts a gain of 2 per cent compared with the fourth quarter of last year.

### Summary Outlook for Q4 2003

According to *BO Monitor* participants, leisure travel from New Zealand is expected to decline during the fourth quarter of 2003, down 1 per cent from the year before. Independent (FIT) leisure travel from New Zealand is expected to decrease 3 per cent, but this will be partially off-set by an increase of 2 per cent in group leisure travel. Supporting expected growth in the group travel segment are recent reports indicating that the SARS outbreak affected business travel in New Zealand more than the leisure market. The stronger New Zealand dollar should also enhance the potential of this travel market.

## Appendix 1: Preliminary Medium-Term Travel Forecasts (CTRI)

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 in the following table were completed in August 2003.

### Travel Forecasts (Medium-Term)

**Overnight Travel from Select International Countries to Canada—All Purposes**  
(thousands of person-trips; per cent change from previous year)

COUNTRY	2001	2002	2003F
United States	15,570 2.5%	16,168 3.8%	15,284 -5.5%
Mexico	148 5.8%	161 8.9%	162 0.5%
United Kingdom	826 -4.2%	721 -12.7%	691 -4.1%
France	357 -11.2%	312 -12.5%	300 -4.0%
Germany	330 -13.1%	292 -11.5%	274 -6.3%
Italy	91 -17.5%	97 6.3%	86 -11.5%
Switzerland	97 -7.7%	88 -9.4%	83 -5.7%
Netherlands	114 -12.9%	107 -6.1%	103 -3.6%
Japan	410 -16.9%	423 3.1%	360 -15.0%
Taiwan	118 -27.5%	104 -11.5%	78 -25.0%
Hong Kong	125 -8.9%	118 -5.7%	97 -18.0%
South Korea	139 7.7%	143 3.2%	131 -8.5%
China	82 10.7%	97 18.3%	86 -11.5%
South East Asia	87 2.5%	88 0.9%	70 -21.0%
Australia	159 -8.3%	149 -4.6%	150 1.0%

Source: Canadian Tourism Research Institute; Statistics Canada